The GEN Group is becoming
the region's leading provider of

RELIABLE, SAFE, COMPETITIVE AND LOW-CARBON

energy supply to consumers.

ANNUAL REPORT
of the company GEN
and the GEN Group for **2019**

The Annual Report in digital format
is available online at:
http://letnoporocilo.gen-energija.si/en

ANNUAL REPORT

OF THE COMPANY GEN AND THE GEN GROUP FOR 2019

Krško, June 2020

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THE GEN GROUP
AT A GLANCE

The GEN Group is one of the largest and strongest business groups in investment terms in Slovenia.

We run an integrated electricity supply chain:

- we **generate** electricity from low-carbon sources: nuclear and hydro,
- we engage in electricity **trading** and **sales** in the domestic market and more than 20 retail and wholesale markets across Europe,
- we channel our capital into **development** and **investments**, primarily ongoing thorough maintenance of existing as well as responsible planning and construction of new, low-carbon production capacities for supporting the electricity supply in Slovenia.

6,300–6,800 GWh

AVERAGE ANNUAL ELECTRICITY PRODUCTION OUTPUT OF OUR POWER PLANTS

30%

SHARE OF THE COUNTRY'S **TOTAL ELECTRICITY PRODUCTION**

more than 99%

OF THE ELECTRICITY WE GENERATE COMES FROM **LOW-CARBON NUCLEAR AND HYDRO ENERGY**

21

EUROPEAN MARKETS IN WHICH WE ARE PRESENT THROUGH TRADING AND SALES ACTIVITIES

OUR GENERATION UNITS – POWER PLANTS

- Nuclear power plant
- Hydroelectric power plant
- Thermal power plant
- Solar power plant

THE PRESENCE OF THE GROUP'S COMPANIES ON ELECTRICITY MARKETS AND EXCHANGES

- Regional power exchange
- Electricity and natural gas
- Electricity

Fulfilling our mission. Responding to challenges.

VISION

The GEN Group is taking over a leading role in the region in providing consumers with a reliable, safe, competitive and low-carbon supply of energy.

MISSION

With its efficient and safe production, the GEN Group is an essential building block for ensuring the stability of Slovenia's electric power grid. By expanding our nuclear power generation programme, we are making a significant contribution to energy self-sufficiency and the quality of living of the population. Through a value added chain, which incorporates production, trading and sales, as well as investments in existing and new production facilities, we ensure a reliable, competitive and consumer-oriented supply of energy and energy services.

The GEN Group's central strategic development project – **JEK 2**

JEK 2 is a much-needed, feasible and economically sound project.

JEK 2 PROJECT IS THE RIGHT SOLUTION TO CURRENT CHALLENGES IN ENERGY FUTURE TERMS

Strengthens the reliability of customer supply

Ensures affordable electricity prices for households and the economy

Is acceptable in climate, environmental and spatial terms and has a positive impact on biodiversity and habitats

Increases the competitiveness of Slovenia's economy

PURPOSE-SPECIFIC GOALS

- To ensure a long-term reliable, safe, environmentally responsible and competitive supply of electricity in Slovenia,
- To facilitate the decarbonization of the electricity generation sector and consequently support Slovenia's fulfilment of climate goals,
- To offset the production outputs of NEK and TEŠ in the long term and to make up for shortages due to increasingly large consumption of electricity as a result of electrification of transport, heating and cooling,
- To reduce reliance on imported electricity and ensure as high a level of self-sufficiency in electricity supply as possible for Slovenia,
- To use the location of the existing nuclear power plant for continued production of electricity,
- To tap into the existing knowledge and experience in operating, maintaining and upgrading a nuclear power plant,
- To ensure secure, quality jobs over the long term.

OPERATIONAL GOAL

installed capacity*

1,100 MW

*one of the three versions examined in the Prefeasibility Study

annual production output

8.8–12.8 TWh

GOALS
of the JEK 2 project

Nuclear energy creates positive economic impacts

Positive impacts of the nuclear energy sector for the **EU**

	2019	2050
GDP	**EUR 507.4 BN** contribution of the nuclear energy sector to the EU GDP, making up 3–3.5% of the EU GDP for 2019	**EUR 575.9 BN** annual contribution of the nuclear energy sector in the EU GDP, making up 1.5–2% of the total EU GDP for 2050
JOBS	**1,129,900** average annual number of jobs sustained or created by Europe's nuclear energy sector	**1,321,600** average annual number of jobs sustained or created by the EU nuclear energy sector
HOUSEHOLD INCOME	**EUR 383.1 BN** average net annual household income due to the activities of the EU nuclear energy sector	**EUR 490.9 BN** average net annual household income due to the activities of the EU nuclear energy sector
PUBLIC REVENUES	**EUR 124.2 BN** average annual public revenues generated through tax payments by the EU nuclear energy sector	**EUR 110.2 BN** average annual public revenues generated through tax payments by the EU nuclear energy sector

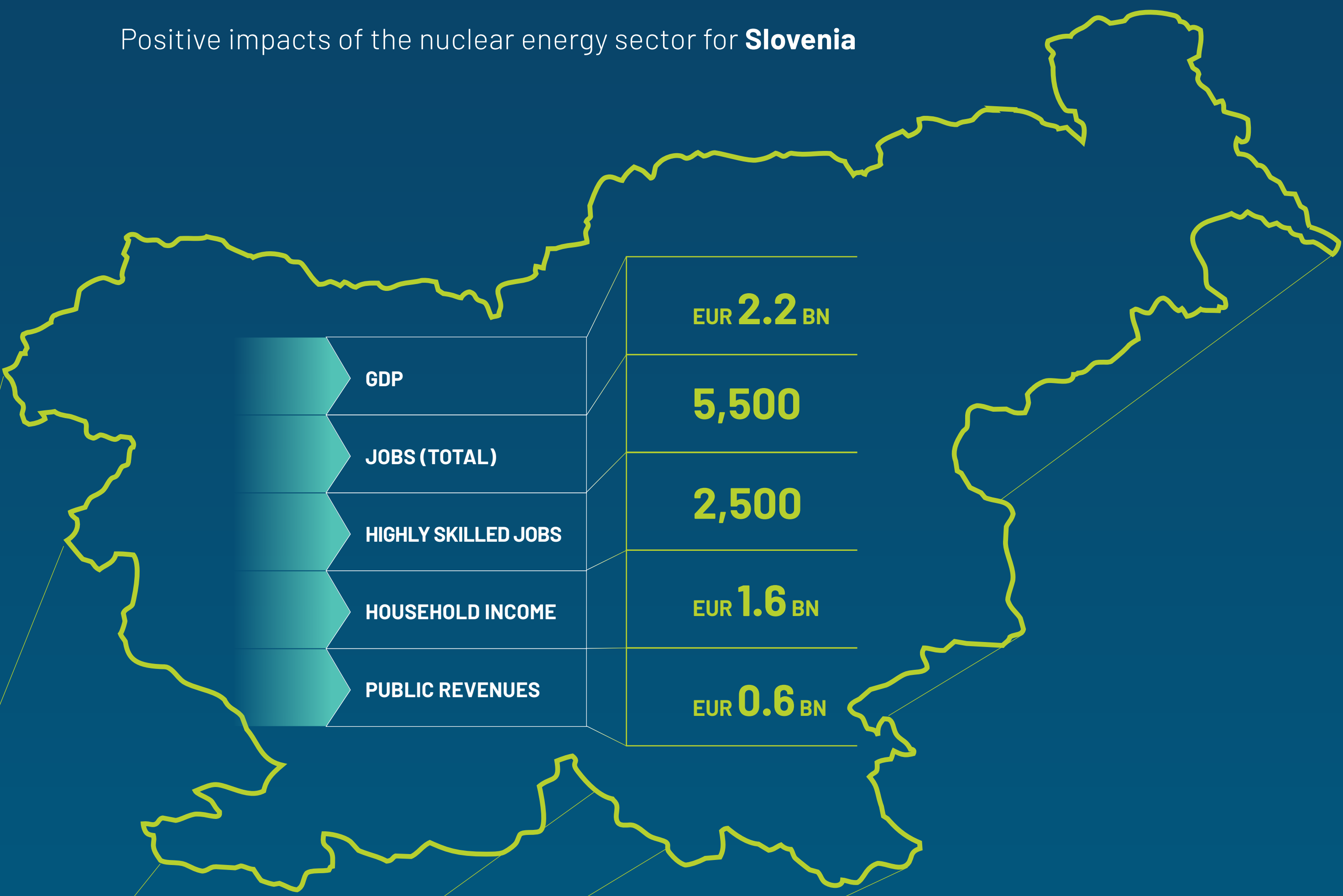
The nuclear energy sector today has an important impact on Europe's economy and sustains more than 1,100,000 jobs across the EU member states.

The scenario of high growth in nuclear production capacity* brings about a major increase in the nuclear energy's positive impacts on the entire European economy.

* High-growth scenario under which 150 GW of new production capacities are projected to be deployed in Europe between 2020 and 2050.

Source: Deloitte. Economic and Social Impact Report 2019.

Positive impacts of the nuclear energy sector for **Slovenia**



GDP	EUR 2.2 BN
JOBS (TOTAL)	5,500
HIGHLY SKILLED JOBS	2,500
HOUSEHOLD INCOME	EUR 1.6 BN
PUBLIC REVENUES	EUR 0.6 BN

1 GW of installed nuclear production capacity generates

EUR 4.3 BN in the EU GDP.

Capitals and results in 2019

Capitals of the GEN Group

Infrastructural capital

Nuclear power plant, hydroelectric power plants on the river Sava, gas-fired thermal power plant (ancillary services), and distributed renewable sources (solar power plants).

Advanced software/IT infrastructure for facilitating effective energy trading and sales at home and abroad.

Natural capital

Low-carbon energy sources: primarily nuclear and hydro.

Financial capital

Financial resources (mainly through equity and borrowing) needed for providing comprehensive electricity supply services.

Employees and intellectual capital

The knowledge, skills and dedication of our employees for performing our principal activities.

Social capital

Relations with external stakeholders in providing comprehensive electricity supply services.

Promoting the understanding and appreciation of the importance of energy supply for our daily lives and enduring social prosperity.

Results of the GEN Group in 2019

Total production output:
3,672 GWh
of electricity

Production output of HPPs:
876 GWh
of electricity
(of which 610 GWh for the GEN Group)

Low-carbon portfolio of energy sources (nuclear and hydro):
99.1%

Number of employees:
1,418

Employee qualifications:
64%
with at least higher education qualifications

Safe, reliable and **environmentally friendly supply** of electricity **to consumers**

Advanced services for consumers – moving towards **green transformation**

Production output of NEK:
5,533 GWh
(2,766 GWh for Slovenia)

TEB's important role in **ensuring power grid stability**

Net profit:
EUR 48.5 million

Turnover:
EUR 2.2 billion

Implementing the action plan for **optimizing business operations**

Preparation of research studies for the **JEK 2 project**

Outlay for R&D, capital expenditures and investments for ensuring long-term stability:
EUR 91.97 million

Strengthening the understanding and knowledge of energy and the energy sector among key stakeholders

INTERVIEW WITH THE MANAGEMENT

JEK 2 brings about positive macroeconomic impacts and helps strengthen reliable production of low-carbon electricity

The GEN Group closed a highly successful business year in 2019; in fact, it was a record-high year in terms of operating and business results. On account of its generated turnover and implemented investments, the Group again ranked among Slovenia's largest and strongest business groups in terms of investment volume.

We sat down with the GEN Group's Management to talk about the Group's results achieved this past year and, above all, its future ambitions with regard to providing a reliable supply of domestic, low-carbon electricity at competitive prices for the economy and the people alike.

In business and operational terms, 2019 was a successful year for the GEN Group. What results would you like to point out?

Novšak: The production outputs of our energy generation facilities met or even exceeded the targets. Krško Nuclear Power Plant (NEK) recorded safe and stable operation at full capacity most of the time and exceeded the planned output – it generated 5,533 GWh of electricity. The hydroelectric power plants on the river Sava operated reliably despite subnormal hydrological conditions up until November 2019, generating a combined total of 876 GWh. Brestanica Thermal Power Plant (TEB) provided eight reliable start-ups for the purpose of balancing the national power grid; it also operated much more often than in preceding years for the purpose of satisfying market demand.

Being above average, our operational efficiency was one of the cornerstones of our achievement of business excellence. Having generated more than EUR 2.2 billion in turnover this past year, the GEN Group consolidated its position among the largest business groups in the country. The companies in our Group spent EUR 92 million on investments, the pivotal one being the successfully completed major overhaul with refuelling at NEK. In terms of investment volume, our Group ranks among the strongest groups in Slovenia.

A large part in achieving operational reliability and business excellence was played by the expertise and competence of our trading team, who was successful in keeping market risks under control and effectively seized any opportunities that opened up in the electricity and natural gas markets. **[learn more on pages 61, 67, 68 and 70]**

Looking ahead, it is difficult not to bring up what impacted our lives the most early this year, the COVID-19 epidemic. Why has the epidemic impacted the GEN Group, and how?

Levičar: The COVID-19 epidemic has turned our lives upside down. But amidst all the turmoil, electricity supply has proved to be one of the most reliable pillars of ensuring the uninterrupted flow of our daily lives and the driver of essential social systems.

With our sense of responsibility and cooperation, we have made an immense contribution to achieving the much-needed stability in various areas of activity across the country. This is our way of bringing some certainty into this time of uncertainty. We provide various consumer groups with a reliable supply of home-generated electricity at affordable prices, which – as a gesture of solidarity – we reduced by a further 15 percent during the epidemic. We made it possible for residential and commercial consumers, the public sector – health care institutions on the front line struggling to curb the epidemic – and the transportation sector to operate without interruptions and, by doing so, we contributed our share to self-sufficiency, at least as far as electricity supply goes.

The management of the GEN Group was expanded to two members in August 2019 and is now made up of the General Director and Business Director. This move has further consolidated the strategic, forward-looking position of the GEN Group.

Of course, this reliability of ours in the supply of electricity did not simply emerge out of thin air; it is the result of well-thought-out decisions and measures we had adopted before the epidemic was announced. In setting priorities, we were also assisted by the Government of the Republic of Slovenia, which, working in liaison with the Ministry of Infrastructure on prioritizing critical infrastructural sectors, placed at the top of the list none other than the energy utility sector, which in effect provides the supply of electricity. The Government called on all operators across the energy utility sector to continue supporting the functioning of the country, the economy and, above all, health care.

You mentioned self-sufficiency in the supply of electricity. What makes it important?

Levičar: It is interesting and instructive to see how every time our globalized world faces a massive ordeal – the COVID-19 pandemic being one of the worst – it breaks up into individual nation-states time and again. Knowing best its specificities, each country first and foremost addresses its own challenges and issues, on its own accord and doing their best. The importance for a nation to be self-sufficient in various areas is thrust to the forefront.

Countries with strategic self-sufficiency in food production and supply of electricity and water can dedicate all their efforts to combatting the epidemic. In Slovenia, we are lucky in this respect, largely thanks to the electricity sector, where a substantial portion of electricity is generated from domestic sources, specifically nuclear and hydro energy, so we are indeed self-sufficient. This is where the GEN Group plays a pivotal role.

How does self-sufficiency fit in with the vision, mission and strategic development policies of the GEN Group?

Novšak: Our vision is to take over a leading role in the region in providing consumers with a reliable, safe, competitive and low-carbon supply of energy. Thanks to our efficient and safe production, we are the essential building blocks of Slovenia's power grid stability, and with the expansion of the nuclear energy programme, we are making a substantial contribution to

Thanks to our efficient and safe production, we are the essential building blocks of Slovenia's power grid stability, and with the expansion of the nuclear energy programme, we are making a substantial contribution to the country's energy self-sufficiency and, as a result, to the quality of living of the people of Slovenia.

Martin Novšak
General Director, GEN energija d.o.o.

the country's energy self-sufficiency and, as a result, to the quality of living of the people of Slovenia. **[Learn more from page 48 onwards]**

Levičar: An important part of pursuing our vision also has to do with well-thought-out development and investments aimed at the electrification of everything. New technologies, e-mobility, generation of heat and cold are all driven by electricity, which is becoming the energy carrier of the future. And electricity is what we generate – from low-carbon sources: nuclear and hydro energy.

We respond to growing trends in electricity consumption and electrification of some sectors with bold development plans. The GEN Group is earmarking EUR 150 million for investments in 2020. That way, we will be able to match and surpass the results from 2019 in the future, of course bearing in mind the special circumstances around the epidemic in 2020. The epidemic has left a deep cut in the electricity offtake levels, chiefly among industrial consumers across Slovenia, Europe and worldwide.

What is your view of the key highlights and the importance of having a nationwide energy and climate policy?

Novšak: In the GEN Group, we carefully follow and engage in expert discussions and put forward proposals for formulating sensible and technically well-founded national energy and climate policies. In doing so, we draw attention to three things.

Firstly, we cannot and must not agree to let our reliance on imported energy increase any further. In recent years, the annual level of import reliance ranged between 15 and 20 percent. Any further increase would significantly reduce the reliability of supply, which entails risks for consumers – the national economy, households, the service and public sectors.

Secondly, energy and climate policies must also be rationally justified based on financial evaluations of various low-carbon scenarios, which factor in price risks associated with the development of individual technologies, costs of deploying technologies into grids, as well as the costs of subsidies and required reserves.

And thirdly, we make the case to policymakers and decision-makers that serious and practicable policies can only be formulated by taking into account the commercial availability and trial track record of the technologies the future energy supply will hinge on. Having one's own experience in such technologies – as is the case with our excellent experience with nuclear and hydro energy – means having a decisive edge to begin with.

These three points are rarely underscored in discussions and documents, if at all. It would be a shame to see today's outstanding condition of Slovenia's electric utility sector, which is the result of well-thought-out, right decisions made decades ago, deteriorate in the future. On the contrary, we must do our best to maintain and further improve it over the long run.

You are drawing attention to the financial dimension in formulating a sustainable energy future. What does the nuclear energy sector have to offer in this respect?

Levičar: A study published last year by FORATOM, a trade association for the nuclear energy industry, highlighted the positive macroeconomic impacts of the nuclear energy sector. Each additional gigawatt (GW) of installed nuclear production capacity generates EUR 4.3 billion in the gross domestic product of the EU and creates nearly 9,600 jobs, almost one-half of which are highly skilled jobs. Additional income at the level of European households amounts to EUR 3.25 billion.

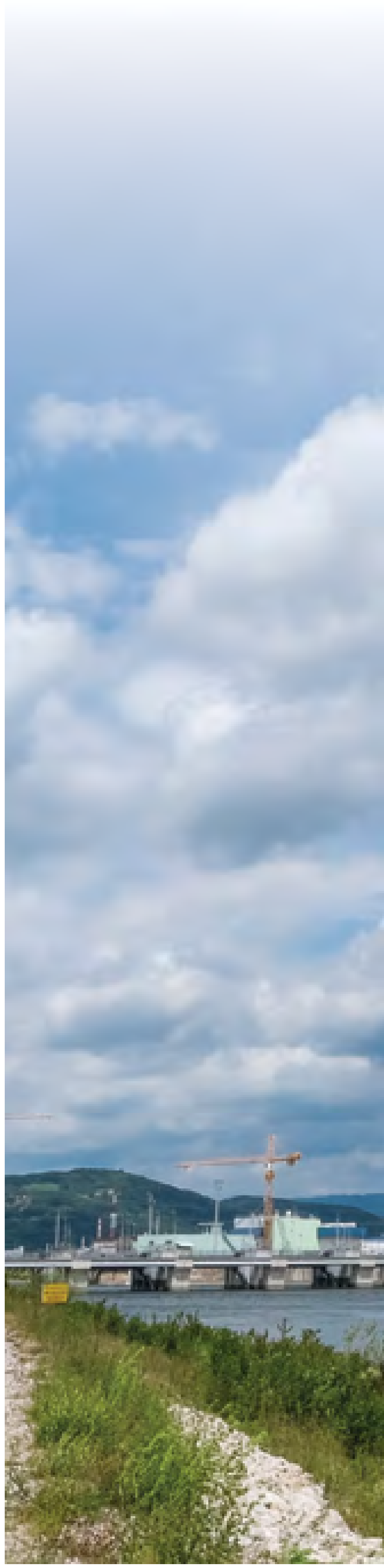
Even more meaningful on the European scale are figures suggesting potential future macroeconomic impacts of new nuclear builds with a look ahead to 2050.

Novšak: Figures such as those put the discussion on the future of nuclear energy in Europe into a broader context of sustainable development, which takes into consideration not only the environmental and climate dimensions with respect to reducing carbon emissions but also the economic and related social impacts.

The nuclear energy sector is an advanced industry with a demonstrably high added value and a substantial macroeconomic impact on the national economy – and is a major driver of local development. We aim to see the future of nuclear energy in Slovenia being discussed in a context as broad as that. **[Learn more from page 71 onwards]**

NEK

NEK's excellent results form the foundation for the confident formulation of a long-term concept for harnessing nuclear energy



2019 was again an outstanding year for Krško Nuclear Power Plant (NEK): remarkable operational stability, high level of nuclear and radiation safety, responsible and considerate attitude to the environment. We exceeded our production targets with 5.533 billion kilowatt-hours of low-carbon electricity, completed a complex scheduled overhaul in a mere 28 days, and made significant progress in the implementation of an extensive safety upgrade, which is now well over halfway.

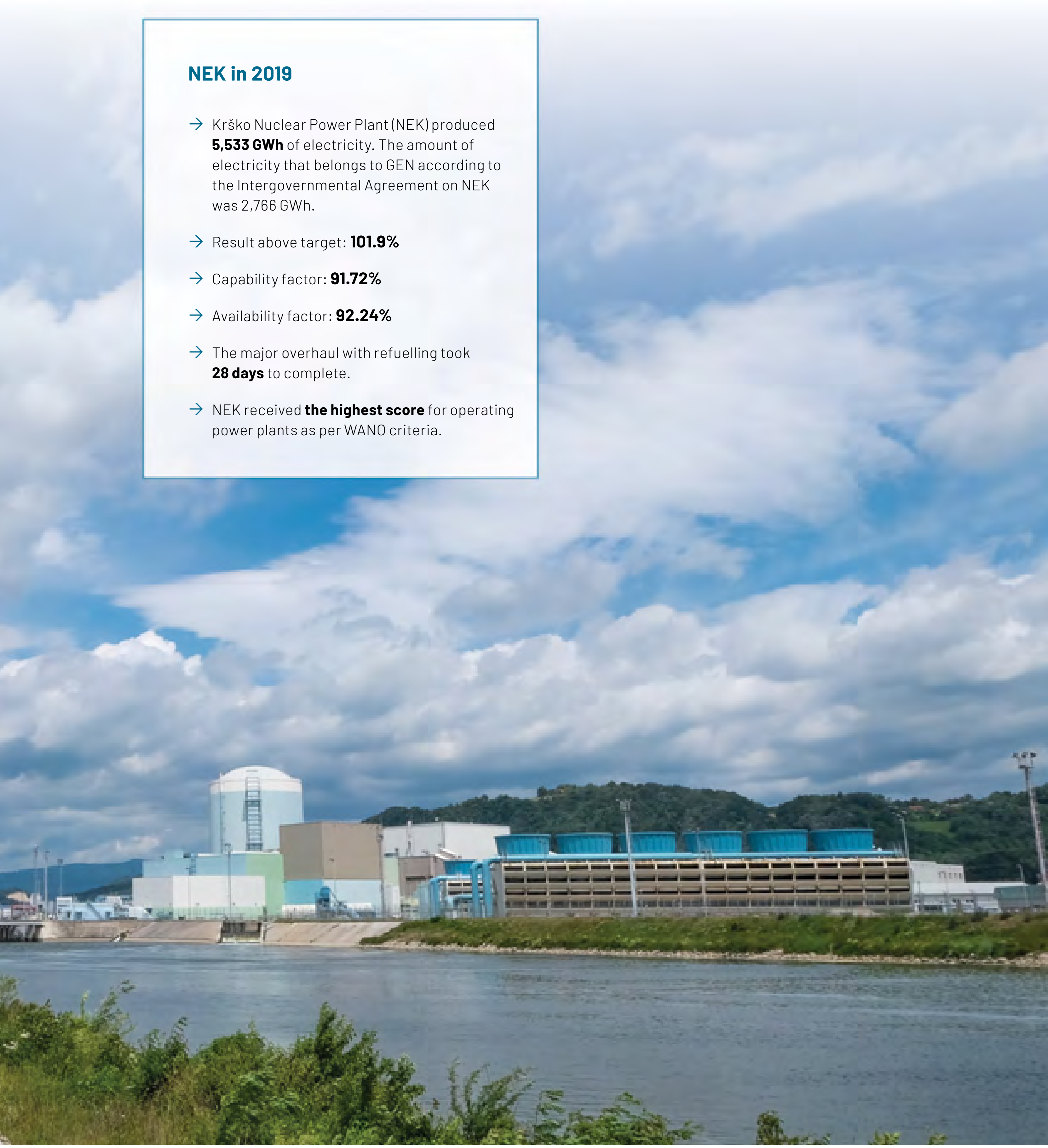
Our notable achievements in 2019 include earning the highest score in an international review conducted by the World Association of Nuclear Operators (WANO). This means that, based on operational performance indicators, NEK ranks among the world's top 60 nuclear power plants in efficiency terms out of a total of 447 in operation worldwide today. This is a major accomplishment for the entire NEK team.

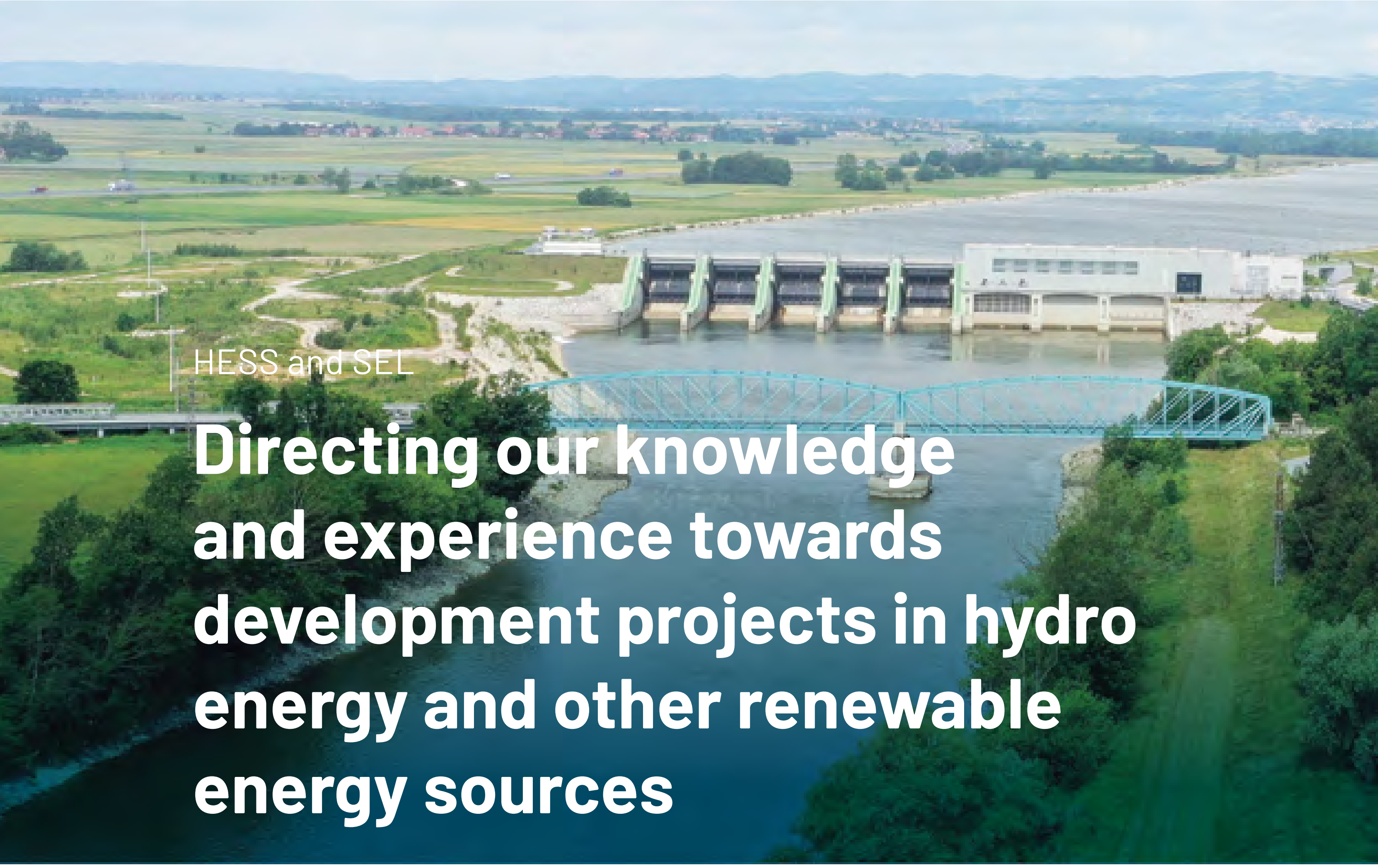
When it comes to nuclear energy, we are in fact a big country. Our results are something we can all be proud of. They serve multiple purposes – as the foundation for confidently formulating a long-term concept of harnessing nuclear energy, for improving power grid stability while seeking to fulfill climate pledges, and for ensuring adequate self-sufficiency of the country's electricity supply.

Stane Rožman
President of the Management Board,
Nuklearna elektrarna Krško d.o.o.

NEK in 2019

- Krško Nuclear Power Plant (NEK) produced **5,533 GWh** of electricity. The amount of electricity that belongs to GEN according to the Intergovernmental Agreement on NEK was 2,766 GWh.
- Result above target: **101.9%**
- Capability factor: **91.72%**
- Availability factor: **92.24%**
- The major overhaul with refuelling took **28 days** to complete.
- NEK received **the highest score** for operating power plants as per WANO criteria.





HESS and SEL

Directing our knowledge and experience towards development projects in hydro energy and other renewable energy sources

HESS IN 2019

- **542 GWh** of generated electricity
- The November 2019 production output was **85.4 GWh**, which is a record-high monthly output of HESS' entire chain of hydroelectric power plants to date
- **94%** realization of targets for 2019

HESS closed the year 2019 according to expectations and within the targets from the business plan – and this despite less-than-favourable hydrology for electricity generation and the delayed start of the construction of Mokrice HPP. With EUR 20 million in operating revenue and EUR 2.4 million in net profit at year-end, we have reached and exceeded our targets.

While putting in repeated and additional efforts for obtaining an Environmental Protection Approval for Mokrice HPP, HESS is also focusing its expertise and experience on new development projects to facilitate the production of additional electricity from renewable sources. Already in the pipeline are projects to build large photovoltaic power plants, which will be implemented in the coming years depending on the opportunities and capabilities of the company. At the same time, we are also developing other pilot development projects such as hydrogen technologies for storing excess electricity generated from renewable sources and using it during shortfalls.

HIDROELEKTRARNE NA SPODNJI SAVI

Bogdan Barbič
Director, Hidroelektrarne na Spodnji Savi, d.o.o.

SEL IN 2019

- **334 GWh** of generated electricity
- successful continuation of the construction of Borovlje SHPP
- **104.5%** realization of targets for 2019

Optimization of the organizational structure and processes, timely investments in increasing the power plants' production output parameters, and the generating units' capability of providing ancillary services were manifested in 2019 in a production output that was above the target, the achieved maximum availability factor of the systems, and the net profit that exceeded projections. All this provides a sound footing for continuing with the planned investments in the years ahead – with an emphasis on building new large and small hydroelectric power plants on the river Sava and its tributaries.

SAVSKE ELEKTRARNE LJUBLJANA d.o.o.

Drago Polak
Director, Savske elektrarne Ljubljana d.o.o.

TEB

We are strengthening our reliability and availability by investing in new gas turbine units

One of the main accomplishments of Brestanica Thermal Power Plant (TEB) in this past year was the start of the construction of an additional backup gas turbine unit PB 7. Once this project is completed, TEB will have wrapped up its development cycle of replacing its three old 23 MW gas turbine units and increased the power plant's operational reliability and availability, which are essential to our providing of ancillary services.

TEB in 2019

- reliable provision of ancillary services: **8 activations** of manual frequency restoration reserve
- completed a total of **212 start-ups** of gas turbine units PB 1–6
- combined gross electricity production output of **26.4 GWh**, or net **21.1 GWh**
- electricity production output up by **115%** over 2018
- **start of construction of a second new gas turbine unit** as part of the project to replace old gas turbine units

TERMOELEKTRARNA BRESTANICA d.o.o.

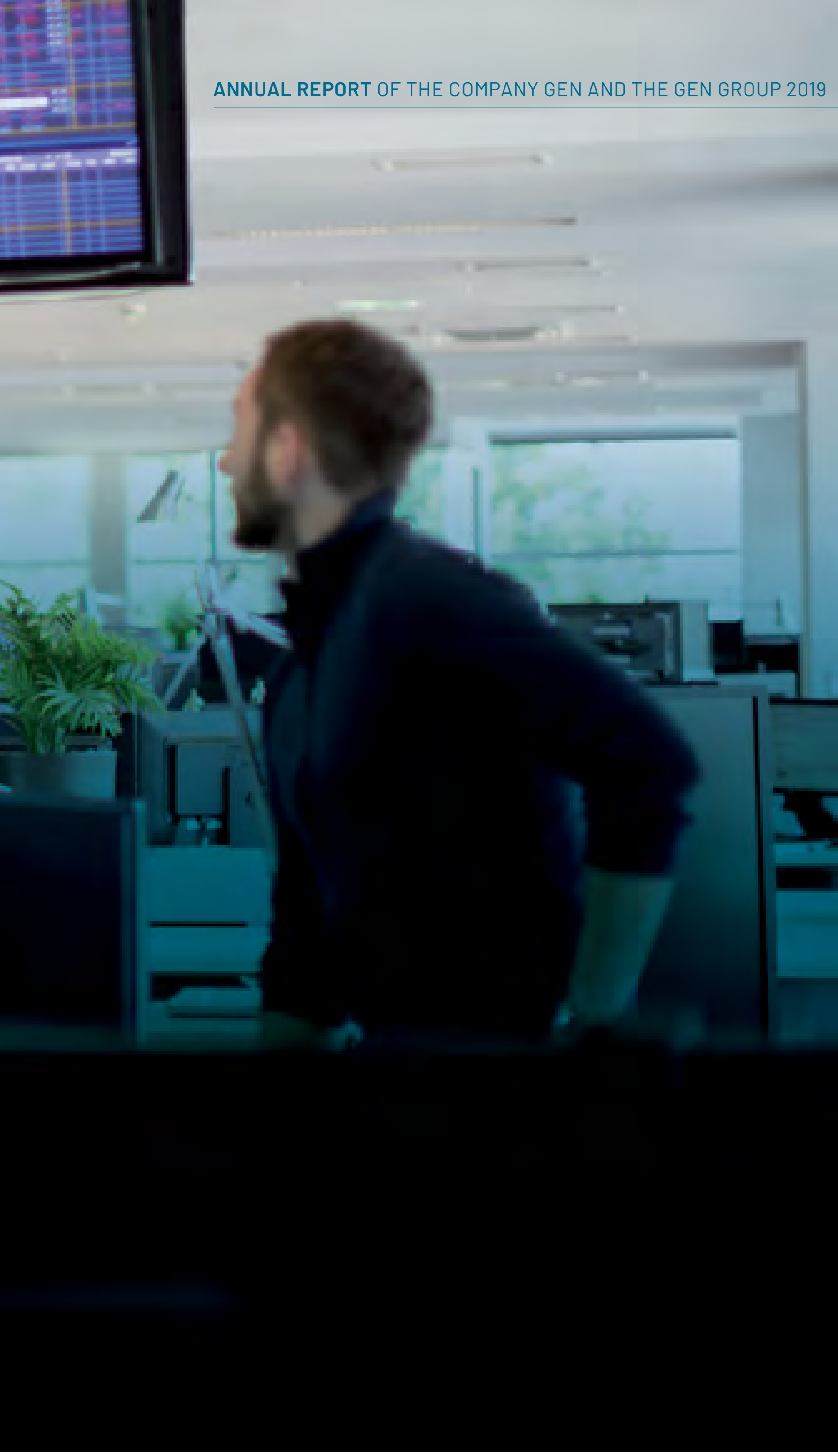
Tomislav Malgaj
Director, Termoelektrarna Brestanica d.o.o.

GEN-I

Writing success stories on our path towards a low-carbon future and clean environment for generations to come

GEN-I IN 2019

- electricity trading volume: **41.4 TWh**
- major buyers' and sellers' markets: **Central, Southeast and Western Europe**
- **advanced services** for our increasingly flexible consumers are based on advanced technologies, as well as on the convergence of energy, transport, and information and communications technologies
- **EUR 5.92 million worth of investments** (mainly into IT systems)



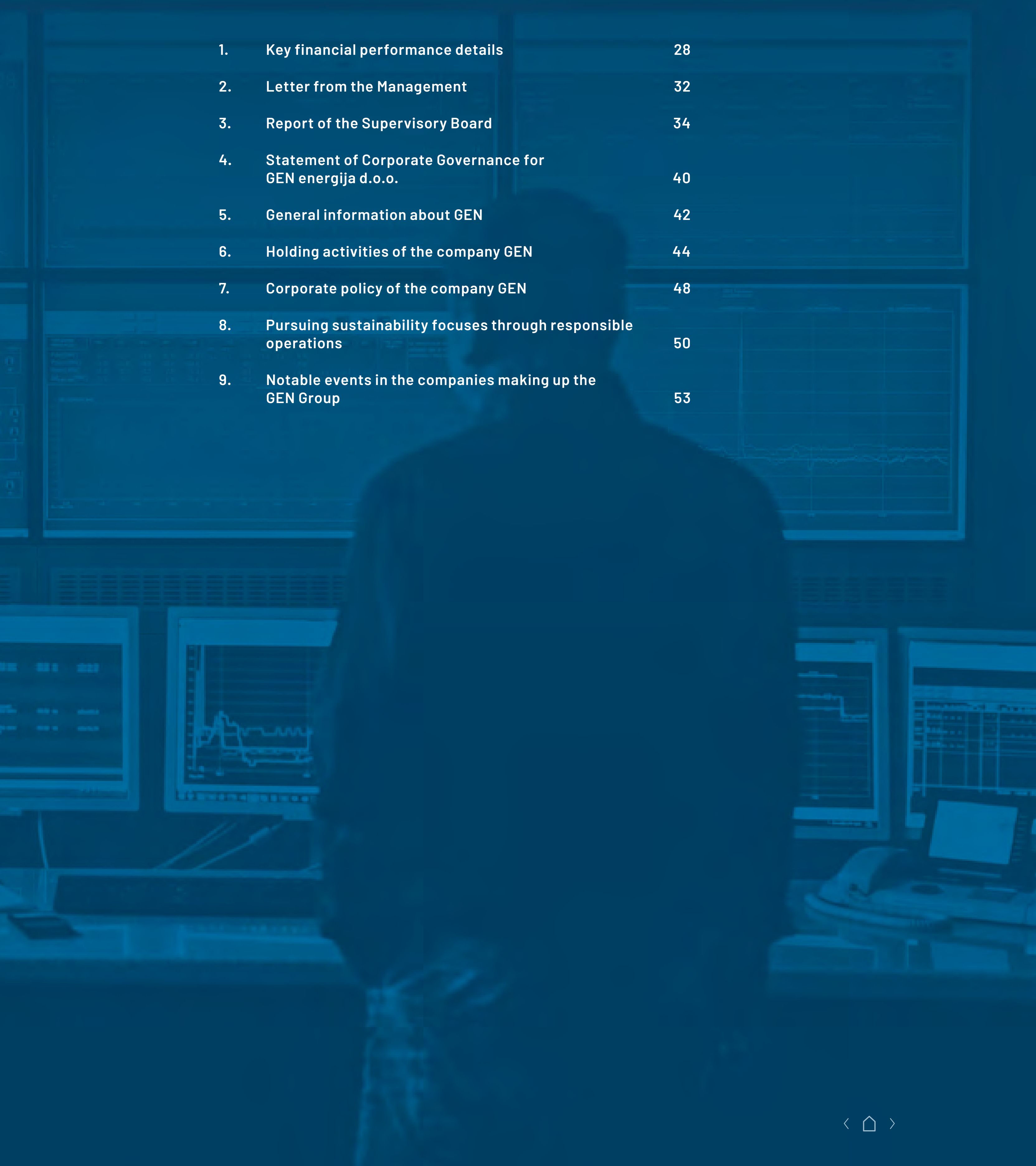
The GEN-I Group certainly is among the fastest-growing and most go-ahead and innovative players in the European energy market. We generated more than EUR 2.2 billion in revenue for a third consecutive year, and net profit exceeded EUR 15 million for the first time ever. Our success story is based on each employee's commitment to fulfilling the mission and pursuing the vision of the company, and more specifically, on living by the company's values – respect, responsibility, dedication, integration and flexibility.

gen-i

Robert Golob, phD
President of the Management Board, GEN-I, d.o.o.

Thanks to our smart and successful operations, development of new products, strong investment potential and a well-thought-out strategy, we have built for ourselves a sound footing for the decade of sweeping technological and social change, which will impact the development of society and people's habits more than ever before. By tapping renewable energy sources, we will make our contribution to the green transformation of society and its transition to a low-carbon reality.

I INTRODUCTION



1. Key financial performance details

BUSINESS RESULTS

The GEN Group closed a successful year in 2019, with **EUR 48.5 million in net profit**, which is up by as much as 19% over 2018. This good result stems from the synergies between the production, trading and sales, and development and investment activities of the GEN Group, which are steered by the managements of the companies that make up the Group, along with their 1,418 employees. Through efficient business operations in 2019 we continued making **optimal use of the situation and developments in the electricity market** and adapted to the natural conditions, particularly the subnormal hydrological conditions we faced up until November this past year (hydrology).

Learn more on page 138 →

We continue to grow. With EUR 2.2 billion in turnover, the Group consolidated its second place among Slovenia's largest business groups and **ranked among the country's strongest business groups in investment terms.**

Learn more on page 138 →

OPERATING RESULTS

The production units of the GEN Group companies generated a combined total of **3,406 GWh of electricity**. We are pleased with the result since it actually exceeded the target by 1% despite the major overhaul in 2019. All our production units operated failure-free in 2019, which is a remarkable achievement.

Learn more on page 62 →

With **safe and stable operation at full capacity most of the time, NEK generated 5,533 GWh of electricity,** half of which, **2,766 GWh**, is the property of GEN, or effectively the Republic of Slovenia, under the Intergovernmental Agreement on NEK. **It achieved the highest score** in **an international WANO review,** which a feat accomplished by a mere one-tenth of the world's best power plants.

Learn more on page 64 →

Despite subnormal hydrology in 2019, our **hydroelectric power plants** generated **876 GWh of electricity** (of which 610 GWh for the GEN Group) thanks to their reliable and successful operation.

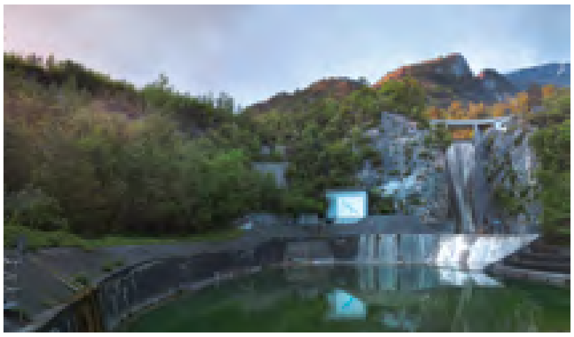
Learn more on page 64 →

With an impeccable start-up track record, **TEB** fulfilled its role in helping **ensure power grid stability**. In 2019, the power plant was started up 8 times for grid balancing purposes, and driven by favourable prices of natural gas, it was also run to help fulfill the needs of the market.

Learn more on page 64 →

Electricity production at all our production facilities was **safe, reliable and friendly to the environment** throughout the year, thanks to our past and ongoing well-thought-out investments in knowledge and equipment.

Learn more on page 65 →



LOW-CARBON PORTFOLIO

As much as **99.1% of all the electricity** generated by the companies making up the GEN Group came from **low-carbon sustainable and renewable sources – nuclear and hydro**.

Learn more on page 64 →

DEVELOPMENT AND INVESTMENTS

Research and development, capital expenditures and investments are essential to the **long-term operating stability** and future growth. Our 2019 investment and capital expenditure outlay totalled **EUR 91.97 million**.

These are the major ones:

- **NEK** successfully completed a demanding scheduled major overhaul in a mere 28 days, the fastest since the introduction of an 18-month fuel cycle – the most intensive part of this operation involved more than 2,000 workers.
- **TEB** continued the project of replacing its old gas turbine units and started the construction of the seventh gas turbine unit – the backup gas-fired generating unit PB 7.
- **HESS** continued with preparations for the construction of the last hydroelectric power plant in the chain, Mokrice HPP, but in March 2019 the Administrative Court annulled ARSO's decision on the issued environmental protection approval. The GEN Group is proactively working towards resolving this particular state of affairs.
- As part of the central strategic development project **JEK 2**, we updated the Prefeasibility Study and drew up an application to obtain an Electricity Generation Licence.

Learn more on page 71 →

EXPANSION OF NUCLEAR PRODUCTION CAPACITIES

Due to Slovenia's reliance on imported energy (18.8% of electricity was imported in 2019) and a shortage of electricity in the wider region as well, the **construction of a second nuclear power plant unit, JEK 2**, is increasingly necessary. Given the project's benefits in terms of achieving the goals of reliability and competitiveness of supply and delivering on the climate goals, and its contribution to reducing Slovenia's reliance on imported energy, JEK 2 is needed already today. Studies conducted to date have shown that, in order for Slovenia to have a reliable future supply of domestically produced electricity, JEK 2 **is a crucial and feasible project** which properly addresses the key challenges of the energy trilemma.

In 2019, we hosted – on an official visit to GEN and NEK – the Prime Minister of the Republic of Slovenia, who endorsed the JEK 2 project. In this project, we are counting on wider international or regional cooperation, with which Slovenia – as a stable country in energy security terms – will further strengthen its reputation in the EU. The GEN Group is ready for the JEK 2 project, but what is now needed is political will to promote the recognition and appreciation of the benefits of nuclear energy in a broader social context as well.

Learn more on page 72 →

TRADING

In the trading and sales sphere, **GEN-I** was successful in adapting to dynamic market conditions and made an essential contribution to **cost-effective risk management**. Through trading operations they provided effective safeguards against production and price fluctuations.

Learn more on page 68 →

DEVELOPMENT OF CONSUMER SERVICES

We pay special attention to providing advanced services for our consumers. In 2019, we continued to systematically link – through cooperation in development projects – the supply of electricity as our core service with a wider range of related services to allow increasingly flexible household, industrial and service-sector consumers-producers to achieve green transformation. We have developed services based on advanced technologies and the convergence of energy generation, transport, and information and communication technologies. In doing so, we have helped shape the global trends of decarbonization, decentralization and digitization.

Learn more on page 77 →

OPTIMIZATION OF BUSINESS OPERATIONS

In 2019, we successfully continued our intense efforts to implement our **action plan for optimizing the operations of both the company GEN and the GEN Group**. Thanks to good coordination, internal optimization processes and commercial activity, we managed to minimize and overcome risks and exceed profit targets.

Learn more on page 138 →

EMPLOYEES AND KNOWLEDGE

Our **employees**, with their knowledge and dedication, have been and will continue to be the cornerstone of our operations: we numbered **1,418** in 2019, with over **64%** having at least higher education qualifications.

Learn more on page 80 →

ENERGY EDUCATION AND RAISING PUBLIC AWARENESS

We further strengthened the interest in topics related to energy and the energy industry and their understanding among various target groups. In 2019, we organized numerous **educational and awareness-raising events and presentations**, as well as attended professional events where we presented our **awareness-raising activities**. We have regularly upgraded **our web portal on energy and the energy industry eSvet** and stepped up our activities in the area of **digital communications**.

Learn more on page 84 →

Pursuant to sustainability reporting guidelines, the Annual Report of the company GEN and the GEN Group for 2019 also includes information on the progress made in terms of achieving GEN's sustainability focuses. In this single document, we seek to **provide a comprehensive view of our operations and highlight the inextricable link between financial and non-financial information**.

To learn more about our sustainability focuses and associated results for 2019, see page 50 →

and the spreadsheet on page 195 →

		GROUP		COMPANY	
Key figures		**2019**	**2018**	**2019**	**2018**
Revenue	in EUR thousand	2,246,180	2,376,085	208,726	203,815
EBIT	in EUR thousand	63,399	50,208	31,051	27,589
EBITDA	in EUR thousand	102,369	86,834	31,907	28,326
Net profit	in EUR thousand	48,488	40,661	27,383	24,505
Assets	in EUR thousand	1,158,886	1,157,012	589,639	561,879
Equity	in EUR thousand	859,836	818,695	486,731	466,408
Debt	in EUR thousand	179,658	166,710	13,069	13,075
Capital expenditures	in EUR thousand	57,381	60,424	901	1,741
Electricity generated	in GWh	3,672	3,699		
Electricity sold	in GWh	41,375	47,153	3,975	4,275
Number of employees at year-end		1,104	1,028	60	57

		GROUP		COMPANY	
Performance indicators		**2019**	**2018**	**2019**	**2018**
Equity financing rate	%	74.20	70.76	82.55	83.01
Long-term financing rate	%	86.05	83.37	94.04	85.31
Operating fixed assets rate	%	64.91	62.93	3.27	3.47
Long-term investment rate	%	66.12	63.61	82.68	86.80
Equity to fixed assets ratio		1.14	1.12	25.25	23.93
Long-term financing to long-term assets ratio		1.29	1.29	1.12	0.97
Cash ratio		1.07	0.89	1.99	2.15
Quick ratio		2.09	1.82	2.78	3.25
Current ratio		2.38	2.10	2.78	3.26
Operating efficiency ratio		1.03	1.02	1.18	1.16
Net return on equity ratio (ROE)	%	5.78	5.07	5.75	5.36
Net return on assets ratio (ROA)	%	4.19	3.59	4.76	4.48
Value added	in EUR thousand	159,206	138,717	35,960	32,049
Value added per employee	in EUR thousand	149	138	625	557
Debt to equity ratio		0.21	0.20	0.03	0.03
Total financial liabilities/EBITDA		1.76	1.92	0.41	0.46
EBITDA margin	%	4.56	3.66	15.48	14.07
EBITDA/financial expenses for loans taken		22.99	26.93	0.00	
Total financial liabilities/assets		0.16	0.14	0.02	0.02
Net financial liabilities/EBITDA		0.07	-0.11	-1.74	-1.13

2. Letter from the Management

Dear Business Partners and Colleagues,

The GEN Group closed a highly successful business year in 2019; in fact, it was a record-high year in terms of operating and business results. We generated more than EUR 2.2 billion in turnover. This ranked us in second place among Slovenia's largest business groups and strongest business groups in investment terms. The Group companies' volume of investments totalled EUR 92 million. One of the major investments is the successfully completed major overhaul at Krško Nuclear Power Plant (NEK).

The strengths of our business operations, which were again confirmed in 2019, are long-term focus, systematic approach and stable growth coupled with our economically effective day-to-day response to developments in the electricity markets and other signals from the environment.

The importance of having a reliable and secure supply of electricity was particularly evident in early 2020, when Slovenia and the wider European and global environment was hit by an infectious coronavirus disease (COVID-19) epidemic, or rather pandemic. Thanks to timely, well-thought-out and effective measures and uninterrupted operation during this time of crisis, the GEN Group proved to be a reliable supplier. We will continue to work tirelessly towards achieving autonomy and self-sufficiency in energy generated from domestic sources using tried and tested technologies, which help reduce our country's reliance on imported energy.

BUSINESS EXCELLENCE

The GEN Group generated EUR 2.2 billion in revenue in 2019, with a net profit amounting to EUR 48.5 million, which is 28% over the target. Added value per employee is EUR 149 thousand.

The parent company generated EUR 209 million in revenue, with a net profit of EUR 27.4 million, exceeding the target by 37%. With such results, achieved through reliable operation and efficient management of the electricity production portfolio, and particularly through the efficient use of synergies between the production, trading and investment functions within the Group, we met all the expectations of our owner, or the authority behind the Republic of Slovenia's investment in GEN – the SSH. With a well-thought-out approach to electricity sales in futures markets we have established a very strong foothold for 2020.

OPERATIONAL EFFICIENCY

We exceeded our electricity production targets. NEK's operation was stable and safe and at full capacity for most of the year. It generated 5,533 GWh of electricity, half of which, 2,766 GWh, is the property of GEN, or effectively the Republic of Slovenia, under the Intergovernmental Agreement on NEK. In added recognition of its performance, the nuclear power plant received the highest score in an international WANO review – this is only achieved by one-tenth of the best power plants in the world, and it sets NEK's good practices as examples for other nuclear power organizations around the world to follow.

Hydroelectric power plants on the river Sava, too, operated reliably and successfully despite subnormal hydrological conditions up until November, generating a combined total of 876 GWh. Brestanica Thermal Power Plant (TEB) was started up and operated reliably 8 times for the purposes of balancing the national power grid, which is much more often than in previous years. In addition, on account of favourable natural gas prices, the power plant was also started up and operated for helping fulfill the needs of the market.

The GEN Group's production units operated failure-free in 2019, which is a remarkable achievement.

TRADING

In the trading and sales sphere, GEN-I was successful in adapting to dynamic market conditions and seizing opportunities in the market. The company developed new business approaches and services related to e-mobility and digitization and placed a strong focus on staff development.

It played a key part in securing a successful and economically effective risk management. Through trading operations, it provided effective safeguards against production fluctuations resulting from occasionally unfavourable hydrological conditions and the scheduled major overhaul at NEK, due to which supplementary energy had to be purchased efficiently in the markets, as well as price fluctuations.

LOW-CARBON PROFILE

As much as 99.1% of all the electricity generated by the companies making up the GEN Group came from low-carbon sustainable and renewable sources – nuclear and hydro. This is an energy mix which – according to economic, environmental, climate and social indicators – is proving to be the right combination for shaping a sustainable energy future for Slovenia.

INVESTMENTS, DEVELOPMENT

Our safe, reliable and environmentally friendly production is the result of ongoing investments in knowledge and equipment. The investment outlay of the GEN Group companies amounted to EUR 92 million in 2019. The central investment was the extensive and complex scheduled major overhaul successfully carried out at NEK in October, the most intensive part of which involved as many 2,000 workers and which was the shortest since the introduction of the 18-month fuel cycle.

HESS is intensively preparing the documentation and acquiring all the required approvals for the construction of Mokrice HPP. SEL is successfully shifting its focus to small-scale hydroelectric power plants, putting most of its investment outlay in 2019 into the construction of Borovlje SHPP.

Having had good experience with its new 53MW gas turbine unit completed in 2018, TEB, the country's most important power plant serving as a tertiary backup source, continued the project to replace its old gas turbine units and started the construction of its seventh gas turbine unit.

STRATEGIC DEVELOPMENTAL CHALLENGE – THE JEK 2 PROJECT

The GEN Group's core strategic development challenge is the JEK 2 project, which – on account of its benefits in terms of meeting the goals of reliability and competitiveness of supply and climate goals – is now overdue. The GEN Group is ready for the JEK 2 project, but what we need now is political will to promote the recognition and appreciation of relevant economic, social and climate benefits of nuclear energy in a broader social context. We have updated the relevant Prefeasibility Study and drew up an application to obtain an Electricity Generation Licence. In this project, we are counting on wider international or regional cooperation, with which Slovenia – as a stable country in energy security terms – will further strengthen its reputation in the EU.

Among other things, this past year was marked by the Government of the Republic of Slovenia and competent institutions' expressed interest in and endorsement of nuclear energy and recommendations from the Court of Auditors' audit report on the indispensability of comprehensive, long-term electricity production planning and shaping of clear and precise framework for moving ahead with the JEK 2 project. Also underway were intensive efforts to draw up a Comprehensive National Energy and Climate Plan (NECP), which is to be followed by the development of the Energy Concept of Slovenia (ECS). This process inevitably calls for equal consideration of low-carbon energy sources, or tried and tested low-carbon electricity generation technologies, that are realistically available in Slovenia. This consideration must be underpinned by an in-depth assessment of financial impacts of individual scenarios of practicable low-carbon energy mixes, among which the GEN Group favours – based on well-founded arguments – the one consisting of low-carbon energy sources, primarily nuclear and hydro, as well as other renewable sources of energy. Without such an approach there can be no serious and responsible planning for an energy future that would continue to create prosperity in Slovenia in the future based on the operational, economic, social, and environmental and climate impacts as demonstrated by the GEN Group.

EMPLOYEES AND KNOWLEDGE

Our employees, with their knowledge and dedication, are essential to the GEN Group's business excellence and operational efficiency and a prerequisite for the realization of the synergies we have been achieving through the activities of the companies in our Group. In 2019, we numbered 1,418, with more than 64% holding at least higher education qualifications. In August, the management was expanded from one to two members and is now made up of the general director and business director, which further consolidated the strategic, forward-looking position of the GEN Group.

With our experience, expertise, commitment, diligence and motivation, we are fulfilling our goals and building a sustainable future not only for the GEN Group but also for all the people of Slovenia, who benefit from our secure and reliable supply of low-carbon electricity at affordable prices.

In recognition of the successful year 2019, we would like to give a warm thank you to colleagues – for your dedicated, hard work and invaluable contribution to the excellent results and further strengthening of the GEN Group, and to representatives of the owner, the SSH and the relevant ministries, the supervisory board, business partners, service providers and local communities – for your trust, successful cooperation and contribution to the proper functioning of the GEN Group.

Martin Novšak
General Director, GEN energija d.o.o.

Danijel Levičar
Business Director, GEN energija d.o.o.

3. Report of the Supervisory Board

Pursuant to the Companies Act (hereinafter: CA-1), Articles of Incorporation of the limited liability company GEN energija d.o.o. (hereinafter: Articles of Incorporation), Rules of Procedure of the Supervisory Board of the company GEN energija d.o.o. (hereinafter: Rules of Procedure) and in accordance with the Corporate Governance Code for Capital Assets of the Republic of Slovenia (hereinafter: Code), the Supervisory Board of the company GEN energija d.o.o. (hereinafter: Supervisory Board) issues the following **report of the Supervisory Board of the company GEN energija d.o.o. for 2019.**

Composition and operations of the supervisory board

in order to ensure the legitimacy, correctness and efficiency of the Management's decisions and in accordance with its powers under the Articles of Incorporation and pursuant to other applicable legislation, the Supervisory Board oversaw the running and management of the company GEN energija d.o.o. (hereinafter: GEN energija) in the 2019 business year as well.

Acting in its capacity, the Supervisory Board followed the company's values, vision and mission and supervised the running of the company in order to ensure its operations are aligned and consistent with the strategic goals, all with the aim of maximizing the value of the company.

COMPOSITION OF THE SUPERVISORY BOARD IN 2019

From 1 January to 20 June 2019 the Supervisory Board was composed as follows:

- Karol Peter Peršolja, DSc (Chairman),
- Saša Ivan Geržina (Deputy Chairman),
- Vanessa Grmek (Member),
- Roman dobnikar (Member),
- Samo Fürst (Member – employee representative), and
- Robert Bergant, DSc (Member – employee representative).

From 21 June to 1 October 2019 the Supervisory Board was composed as follows:

- Mateja Čuk, MA (Chairwoman),
- Miha Butara (Deputy Chairman),
- Lovro Lapanja (Member),
- Miha Šebenik (Member),
- Samo Fürst (Member – employee representative), and
- Robert Bergant, DSc (Member – employee representative).

From 2 October to 31 December 2019 the Supervisory Board was composed as follows:

- Mateja Čuk, MA (Chairwoman),
- Miha Butara (Deputy Chairman),
- Lovro Lapanja (Member),
- Miha Šebenik (Member),
- Samo Fürst (Member – employee representative), and
- Marjanca Molan Zalokar (Member – employee representative).

The Supervisory Board assesses its operations as successful and its composition sufficiently diversified to be able to perform its business oversight duties as vested in it by applicable regulations. The Supervisory Board is composed of members with different expertise, experience and skills which are mutually complementary. The composition of the Supervisory Board is heterogeneous in terms of age and diverse in terms of gender (66.67% men and 33.33% women). The Supervisory Board members strive to be independent and autonomous in their work. They also continually work to prevent any conflict of interest in the performance of their duties. No potential risk of conflict of interest was recorded in 2019, which means that no member of the Supervisory Board abstained from voting. Supervisory Board members fulfilled their functions diligently, responsibly and effectively. The meetings were conducted in such a way that all the members of the Supervisory Board were given the opportunity for discussion and that the discussions of the items on the agenda were thorough, which helped make well-thought-out, responsible decisions.

The Supervisory Board has two boards serving as consultative bodies, the AUDIT and RECRUITMENT COMMITTEE.

COMPOSITION OF THE SUPERVISORY BOARD COMMITTEES IN 2019

I. AUDIT COMMITTEE

From 1 January to 20 June 2019 the Audit Committee was composed of the following three members:

- Roman Dobnikar (Chairman),
- Samo Fürst (Deputy Chairman until 13 May 2019; Member since 14 May 2019[1]), and
- Alojz Dimič (Member – external expert).

The Audit Committee was suspended from 21 to 27 June 2019 because the number of members was not in line with Article 279, paragraph 3 of the Companies Act[2] nor with Article 16, paragraph 2 of the company's Articles of Incorporation.

From 27 June to 31 December 2019 the Audit Committee was composed of the following three members:

- Miha Butara (Chairman),
- Samo Fürst (Member), and
- Alojz Dimič (Member – external expert).

II. RECRUITMENT COMMITTEE

From 1 January to 13 May 2019 the Recruitment Committee was composed of the following three members:

- Saša Ivan Geržina (Chairman),
- Karol Peter Peršolja, DSc (Deputy Chairman), and
- Katja Simončič (Member – employee representative).

From 14 May to 20 June 2019 the Recruitment Committee was composed of the following four members:

- Saša Ivan Geržina (Chairman),
- Karol Peter Peršolja, DSc (Member),
- Vanessa Grmek (Member), and
- Katja Simončič (Member – employee representative).

From 27 June to 31 December 2019 the Recruitment Committee was composed of the following four members:

- Miha Šebenik (Chairman),
- Miha Butara (Member),
- Lovro Lapanja (Member), and
- Katja Simončič (Member – employee representative).

The work of the Supervisory Board and its committees was well organized and performed in accordance with applicable rules of procedure of individual bodies. The members received all materials in a timely manner, and the quality of the materials allowed them to be properly informed on pending matters.

Details on the operations of the Supervisory Board and its committees[3]

Up until 20 June 2019, the Supervisory Board – as composed from 1 January to 20 June 2019 – convened for five (5) regular meetings and one (1) special meeting, six (6) meetings in all, adopting 86 resolutions.

Individual Supervisory Board members were in full attendance at individual meetings.

From 21 June to 31 December 2019, the Supervisory Board – as composed during that period – convened for one (1) constitutive meeting, seven (7) regular meetings, one (1) special meeting, two (2) correspondence meetings, eleven (11) meetings in all, adopting 101 resolutions.

Individual Supervisory Board members were in full attendance at individual meetings except for one member who was absent on valid grounds from one of the meetings.

Up until 20 June 2019, the Supervisory Board Audit Committee – as composed from 1 January to 20 June 2019 – convened for three (3) regular meetings, adopting 17 resolutions.

Individual members of the Supervisory Board Audit Committee were in full attendance at individual meetings.

1 New Rules of Procedure of the GEN Supervisory Board came into effect on 14 May 2019, under which the committees no longer include deputy chairpersons.

2 A committee is made up of a chairman and a minimum of two members.

3 Item 8.4 of the Code

From 27 June to 31 December 2019, the Supervisory Board Audit Committee – as composed during that period – convened for four (4) regular meetings, adopting 16 resolutions.

Individual members of the Supervisory Board Audit Committee were in full attendance at individual meetings.

Up until 20 June 2019, the Supervisory Board Recruitment Committee – as composed from 1 January to 20 June 2019 – convened for five (5) regular meetings, adopting 26 resolutions.

Individual members of the Supervisory Board Recruitment Committee were in full attendance at individual meetings.

From 27 June to 31 December 2019, the Supervisory Board Recruitment Committee – as composed during that period – convened for ten (10) regular meetings, adopting 57 resolutions.

Individual members of the Supervisory Board Recruitment Committee were in full attendance at individual meetings.

The members regularly received relevant information, reports and materials for meetings of the Supervisory Board and its two committees and kept a close watch on the fulfilment of the adopted resolutions.

Opinion on the work of the management

As in previous years, 2019 saw good cooperation between the Management and the Supervisory Board. The Management kept the Supervisory Board informed in a suitable and timely fashion. Materials and resources for Supervisory Board meetings were prepared with due care and attention. The Management regularly attended Supervisory Board meetings and was open to any follow-up questions from the Supervisory Board members. Regular communication between the Management and the Supervisory Board Chairwoman has been established outside the Supervisory Board meetings.

The Supervisory Board regularly watched over and assessed the work of the Management by reviewing the operating results of the company and the Group and by comparing them against the goals as specified in the business and development plans, as well as against the results from previous periods.

Approvals for leadership and management actions

In 2019, pursuant to Article 11 of the company's Articles of Incorporation, the Management of GEN energija was required to obtain an approval from the Supervisory Board for the following:

- proposal to the founder on the adoption of cornerstones for the business policy and the Development Plan of the company GEN and the GEN Group for a period of five (5) years,
- proposal to the founder on the disposal and encumbering of business interests/stocks in subsidiaries and affiliated companies,
- proposal to the founder on the establishment and liquidation of companies and the acquisition of majority interests in the capital of other companies.

In 2019, for the reasons listed in the indents above, the Supervisory Board gave two[4] approvals to the Management for the proposal to the founder on the disposal of the business interests in a subsidiary or affiliated company[5] and one approval for the adoption of the cornerstones for the business policy[6].

In 2019, pursuant to Article 14 of the company's Articles of Incorporation, the Management of GEN energija was required to obtain an approval from the Supervisory Board for the following:

- business plan of the company GEN and the GEN Group,
- appointment, discharge and remuneration of the Head of Internal Audit,
- annual work programme for Internal Audit,
- decision-making at general meetings of subsidiaries and affiliated companies,
- decision-making in the event of status and capital changes,
- decision-making on the appointment and discharge of managers in subsidiaries and affiliated companies,
- decision-making on the validation of investment programs for investments in excess of EUR 10 million in subsidiaries – one-person limited-liability (d.o.o.) companies,
- decision-making at GEN-I d.o.o. and GEN-EL d.o.o. general meetings[7],
- transferring onto the company certain business functions from subsidiaries wholly owned by the company (establishment of operating holding duties),
- the Rules of Procedure of the Management.

4 Addendum to the agreement on the purchase and sale of business interests in HESS

5 Disposal of interest in HSE Invest

6 Approval to the 2019 electricity trading strategy for 2020

7 If the Supervisory Board decides not to give its approval to the Management for decision-making at general meetings of GEN-I d.o.o. or GEN-EL d.o.o., it may provide the Management with an instruction on how to vote at the general meeting of these companies, which the Management is obliged to follow.

In 2019, for the reasons listed in the indents above, the Supervisory Board gave its seal of approval to the business plan of the company GEN and the GEN Group, gave its approval for the appointment, discharge and remuneration of the Head of Internal Audit (approval for signing a contract with an external contractor), gave its approval to the Management for the appointment of a member of management in subsidiaries and affiliated companies , gave its seal of approval to the Rules of Procedure of the Management, three approvals for voting at the general meeting of GEN-I and one approval for voting at the general meeting of GEN-EL.

In one instance in 2019, pursuant to Article 17, paragraph 8 of the company's Articles of Incorporation, the Management of GEN energija was required to obtain a prior approval from the Supervisory Board for the following:

- simultaneous acting in a managerial capacity in a subsidiary or affiliated company, and
- signing of a management contract[8].
- In 2019, pursuant to Article 20, paragraph 9 of the company's Articles of Incorporation, the Management of GEN energija was required to obtain a prior approval from the Supervisory Board for the following types of legal transactions:
- acquisition or disposal or encumbrance of stocks or business interests in subsidiaries and other companies,
- establishment or termination of other companies, branches, plants,
- purchase, sale or other disposal, exchange or encumbrance of properties owned by the company,
- all legal transactions (including investments, credit transactions and similar) where the value of a single transaction or multiple linked transactions combined exceeds 1% of the company's share capital, or EUR 2,500,000.00, except trading transactions with electricity, emission allowances or their equivalents, natural gas, liquefied petroleum gas and related transactions, as well as transactions in connection with short-term cash management in the GEN Group and transactions involving short-term placement of cash into deposits with commercial banks, and
- providing securities, assurances or guarantees.

In 2019, for the reasons listed in the indents above, the Supervisory Board gave its seal of approval to the acquisition or disposal or encumbrance of business interests in subsidiaries and other companies and one seal of approval to a legal transaction where the value of a single transaction or multiple linked transactions combined exceeds 1% of the company's share capital, or EUR 2,500,000.00.

8 At NEK

Interim supervision of business operations

The Supervisory Board periodically (each quarter) reviewed interim reports on the operations of the company GEN and the GEN Group. The Supervisory Board was also briefed on all the interim reports by the Audit Committee. In the first half of 2019, quarterly information on GEN-I's operations was also examined at the meetings during which the interim reports of the company GEN and the GEN Group were discussed. The Supervisory Board gave its seal of approval in 2019 to the company's Electricity Trading Strategy for 2020 and kept abreast of the running operations of the GEN Group companies, their investments, planned and implemented capital expenditures, number of employees and optimization of labour costs, value of assets, equity, receivables, operating revenues and expenses, operating profit or loss and net profit or loss of the Group companies. The Supervisory Board also kept abreast of other matters that impact the fulfilment of goals as set out in the SSH Annual Governance Plan.

Major decisions made by the supervisory board

APPROVAL OF THE ANNUAL REPORT OF THE GEN GROUP FOR 2018

On 14 May 2019, at its 54th regular meeting, the Supervisory Board reviewed the composition of the Annual Report of the company GEN and the GEN Group for 2018 and a proposal for the allocation of balance-sheet profit. The Supervisory Board raised no objections to the Annual Report and approved it along with the auditor's opinion.

FINANCIAL STATEMENTS AND PROPOSAL FOR THE ALLOCATION OF BALANCE-SHEET PROFIT FOR 2018

In reviewing the Annual Report of the company GEN and the GEN Group for 2018, the Supervisory Board:

- checked the composition of the Annual Report and found that the company achieved good business, commercial and financial results in 2018,
- confirmed the content of the Annual Report along with the auditor's opinion for the company GEN energija and the GEN Group,
- compiled a written Supervisory Board Report for the founder, and
- gave its seal of approval to the management's proposal on the allocation of balance-sheet profit.

The Annual Report was audited by ERNST & YOUNG, Revizija, poslovno svetovanje, d.o.o., Ljubljana, as nominated on 1 August 2018 with Resolution No. 2018-3161-TPB by the Slovenian Sovereign Holding, acting in its capacity as the Founder, to audit the financial statements of the company GEN energija and the consolidated financial statements of the GEN Group for the 2018 financial year. The authorized auditing firm issued a favourable opinion on the Annual Report.

The Supervisory Board had no objections to the auditor's opinion and assented to it.

The Management put forward a proposal to the Founder for exercising partner rights in the company GEN energija d.o.o. (material for the 2019 General Meeting of the company GEN energija d.o.o.), and on 14 May 2019, at its 54th regular meeting, the Supervisory Board was briefed on the proposals of resolutions to the Founder made by GEN energija d.o.o. director.

Acting in its capacity as the founder and sole owner of the company GEN energija, the Slovenian Sovereign Holding then passed the following resolutions on 7 June 2019:

- it was presented with the Annual Report of the company GEN energija d.o.o. and the consolidated AnnualReport of the GEN Group for 2018, along with the Auditor's Reports and the Supervisory Board Report
- on the review of the Annual Report;
- the balance-sheet profit for 2018, totalling EUR 16,252,373.71, was allocated as follows: EUR 7,000,000.00 was paid out as a profit share to the sole owner within 90 days from the passing of the resolution, EUR 4,252,373.71 was distributed to other revenue reserves, and EUR 5,000,000.00 was accumulated profit;
- granted a discharge to the General Director and Supervisory Board for their work in the 2018 business year.

ASSENT TO THE BUSINESS PLAN OF THE COMPANY GEN ENERGIJA D.O.O. AND THE GEN GROUP FOR 2019 WITH A FORECAST FOR 2020 AND 2021

On 18 November 2019, at its 5th regular meeting, the Supervisory Board assented to the Business Plan of the company GEN energija d.o.o. and the GEN Group for 2020 with a forecast for 2021 and 2022 and notified the Founder of its assent pursuant to Article 22, paragraph 4 of the company's Articles of Incorporation.

ASSENT TO THE ELECTRICITY TRADING STRATEGY

On 6 March 2019, at its 52rd special meeting, the Supervisory Board gave its assent to the Electricity Trading Strategy of the company GEN energija d.o.o. from 2019 for 2020 and beyond.

APPOINTMENT OF COMPANY DIRECTOR

On 29 July 2019, at its 1st regular meeting, the Supervisory Board appointed a new member of the Management – Business Director of GEN energija, with a term of office from 1 August 2019 to 1 August 2023.

Self-assessment and disclosures pursuant to the corporate governance code for capital assets of the Republic of Slovenia

SELF-ASSESSMENT

The 2019 performance assessment procedure, in the form of completing a self-assessment matrix by the Supervisory Board for 2019, was completed in January and February 2020. Once the procedure was completed, the Supervisory Board briefed the Founder on the results and adopted an action plan.

DISCLOSURES

Pursuant to the SSH Code[9], the company is disclosing in an annual report (enclosed with statements) in a clear and straightforward way all remunerations and other rights of individual Supervisory Board members, by individual type of remuneration or type of other rights (with a full breakdown of costs):

Pursuant to the SSH Code[10], the company is also disclosing the costs of Supervisory Board operations such as costs of legal opinions, translation costs, travel expenses, education expenses, special expert fee, etc.:

Of the specified costs, the costs of additional training for members of the GEN Supervisory Board in 2019 amounted to EUR 1,200 exclusive of VAT[11], travel expenses are presented in the remuneration disclosure table, and the outsourcing costs (for a recruitment agency) totalled EUR 19,990 exclusive of VAT[12]; no other costs were incurred in 2019.

Approval of the Annual Report of the GEN Group for 2019

On 21 May 2020, at its 13th regular meeting, the Supervisory Board adopted the following resolutions:

181/13.RS/Ad6:

The Supervisory Board of the company GEN energija d.o.o. has reviewed the composition of the Annual Report of the company GEN and the GEN Group for 2019 and the proposal for the allocation of balance-sheet profit. The

9 Item 8.3 of the SSH Code
10 Item 8.4 of the SSH Code
11 Or EUR 1,464 inclusive of VAT
12 Or EUR 24,387.80 inclusive of VAT

Supervisory Board of the company GEN energija d.o.o. has found that the company achieved good business, commercial and financial results in 2019.

182/13.RS/Ad6:

Based on the review of the Annual Report of the company GEN and the GEN Group for 2019, the accompanying financial statements with notes, and the Auditor's Opinions, the Supervisory Board of the company GEN energija d.o.o. finds to have no objections to the Annual Report and hereby approves it, along with the Auditor's Opinions for the company GEN energija and the GEN Group.

183/13.RS/Ad6:

The Supervisory Board of the company GEN energija d.o.o. produced for the Founder a written GEN Supervisory Board report on the results of the review of the Annual Report, which is attached hereto.

184/13.RS/Ad6:

The Supervisory Board of the company GEN energija d.o.o. assents to the company Management's proposal to the Founder for distributing the entire 2019 balance-sheet profit, in the total amount of EUR 18,691,632.98 , to other revenue reserves.

Conclusion

The Supervisory Board members assess the performance of the company GEN and the GEN Group in 2019 as safe, reliable and successful. The company seeks to continually improve its business operations, keeping a key focus on the reliability and safety of its production facilities, its employees and the environment. The company makes ongoing efforts to maintain and invest in its production facilities and to promote the training and education of its employees. Environmental acceptability, safety, reliability, sustainability and competitiveness are the key values the company pursues in its operations.

The Supervisory Board prepared this report in compliance with Article 282 of the Companies Act (CA-1). The Supervisory Board Report is intended for the Founder and sole owner of the company.

Mateja Čuk, MA
Chairwoman of the Supervisory Board of
the company GEN energija d.o.o.

4. Statement of Corporate Governance for GEN energija d.o.o.

The company GEN energija d.o.o., Vrbina 17, 8270 Krško (hereinafter: company GEN), pursuant to Article 70, paragraph 5 of the Companies Act (hereinafter: CA-1) and in accordance with item 3.4 of the Corporate Governance Code for Capital Assets Management of the Republic of Slovenia, the SSH, December 2019 (hereinafter: SSH Code), hereby issues this Statement of Corporate Governance for the period from 1 January 2019 to 31 December 2019.

The Management of the company GEN energija d.o.o. (hereinafter: Management) hereby declares that in 2019 the company was run and managed in compliance with applicable laws and other applicable regulations, the Articles of Incorporation of the limited liability company GEN energija d.o.o. (hereinafter: Articles of Incorporation), the SSH Code, and the Recommendations and Expectations of the Slovenian Sovereign Holding, of March 2018 (hereinafter: Recommendations and Expectations of the SSH).

Pursuant to Article 60 of CA-1, the Management hereby declares that the Annual Report, with all its components, including this Statement of Corporate Governance, has been compiled and published in full compliance with CA-1 and the accounting policies of the company GEN and the GEN Group.

The company seeks to respect and strengthen its corporate integrity and, by doing so, to spread the awareness of the importance of running a business in accordance with the legislation, good business practices and high ethical standards as one of the fundamental principles of socially responsible operation. The company GEN energija d.o.o. has also adopted its Business Ethics Code of Conduct.

The Statement of Corporate Governance is an integral part of the Annual Report and is publicly available on the company's website at http://www.gen-energija.si.

I. Statement of compliance with the code and the recommendations and expectations of the SSH

A/ SSH CODE

In 2019, the company followed the SSH Code effective in 2019 as its point of reference. In doing so, however, it also takes into account the characteristics of its line of business and the specific nature of its operations. In 2019, the company fully followed most of the recommendations based on the "comply or explain" approach. Below are explanations regarding individual deviations from the recommendations as set out by the SSH Code:

Item 6.6.1: The Statement of Autonomy shall be completed upon each appointment.

Item 6.13.4: Followed in part, that is, where minutes are to be submitted to the Supervisory Board – since Audit Committee meetings generally take place immediately prior to Supervisory Board meetings, the Supervisory Board is only provided with resolution transcripts.

Item 7.4: The company holds regular annual employee performance reviews, on the basis of which proposals for further development of the employees and their skills is prepared (effectively proposals for employee promotions).

Item 10.2: The corporate integrity function is spread across the board and carried out as part of the work responsibilities of the company GEN employees.

Item 10.2.2: The company has deployed a system for reporting any suspicious and illicit activities through its corporate website. A report can be filed by e-mail at: prijava.nepravilnosti@gen-energija.si.

B/ Recommendations and expectations of the SSH

Based on the characteristics of its line of business and the specific nature of its operations, while also employing the "comply or explain" approach, the company GEN follows, by analogy, most of the Recommendations and Expectations of the SSH. Applying the "comply or explain" approach, the company fully followed most of the recommendations in 2019; explanations regarding specific deviations are given below:

Recommendation 3.7: Followed by analogy, since the company GEN publishes this or similar data in accordance with the Public Procurement Act (ZJN-3) and the Public Information Access Act (ZDIJZ).

Recommendation 3.8: The company GEN has in place clearly defined procedures for awarding sponsorships and grants, but these are not published on a public website.

Recommendation 4.4: The company GEN publishes on its website the basis for calculating the amount of holiday allowance.

Recommendation 4.5: The Collective Labour Agreement for Slovenia's Electricity Sector is available on the company GEN's website.

Recommendation under Item 5: Applied in part in the implementation of management systems and through the performance of internal and external audits according to ISO standards, which are also the basis for self-assessment under the EFQM Model.

Recommendation 6: Followed by analogy, according to the company's organizational structure (a limited liability company with a single owner).

II. Information on the activity of the founder acting as a general meeting of the company GEN

In 2019, pursuant to its Articles of Incorporation, the company GEN was governed by the Slovenian Sovereign Holding (SSH) acting on the authorization of the company's sole owner, the Republic of Slovenia. Management, composed of the general director and business director, is the managing body of the company GEN, while its supervisory body is the supervisory board.

In 2019, the company adopted its Management and Supervisory Board Diversity Policy (adopted in March 2019), notified the Founder accordingly and published it on its website.

The corporate integrity system, in the context of the requirements under Item 10.2.1, is spread across the board and implemented as part of the work responsibilities of the various expert divisions or employees. To that end, the company GEN energija d.o.o. adopted its Business Ethics Code of Conduct as early as 2012, which is publicly accessible on the company's website and which is to be be followed by anyone working within the company, regardless of their role or position. The company makes an ongoing effort to respect and strengthen its corporate integrity and, by doing so, to spread the awareness of the importance of running a business in accordance with good business practices and high ethical standards.

In 2019, as the Founder and acting in its capacity as the General Meeting of the company GEN, the SSH made decisions in accordance with the company's Articles of Incorporation and adopted a total of 12 (twelve) resolutions. The SSH posts its resolutions on its publicly accessible website (https://www.sdh.si/sl-si/upravljanje-nalozb/koledar-skupscin), and the company GEN promptly enters them in its Register of Resolutions in accordance with CA-1. The responsibilities of the Founder are set out in the Articles of Incorporation, which is publicly available on the website of the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES).

III. Information on the composition and activity of the management and supervisory bodies in 2019

The relevant information is included in the Supervisory Board Activity Report for 2019.

IV. Characteristics of the company GEN's internal controls and risk management systems with regard to financial reporting

In order to ensure greater transparency, efficiency and responsibility of its operations, the company has put in place a fully-fledged system of internal controls and risk management systems implemented through the company's organizational structure, quality management standards and internal acts, using a precisely structured reporting system for individual organizational units. In key locations, the internal controls system is supported by an IT controls system, which ensures appropriate network restrictions and supervision and accurate, prompt and complete data processing, among others.

Through the internal controls system, the company methodically and systematically follows procedures and methods that integrally ensure the accuracy, reliability and completeness of data and information and the correct and fair preparation of financial statements, as well as prevent and detect system errors and ensure compliance with laws and other regulations, acts passed by the governance bodies, and the company's systemic rules.

The company Management is responsible for keeping appropriate business ledgers, implementing and enabling internal control procedures and internal accounting controls, and selecting and applying accounting policies.

When establishing an internal controls system, the principle of three lines of defence is followed:

- assessment of the setting, risk assessment (carried out by risk owners),
- determination of the method of control – control system deployment (carried out by various specialist services),
- control over the functioning of the system and introduction of improvements (carried out by various specialist services).

In setting up an internal controls system, three main objectives are pursued:

- accuracy, reliability and completeness of accounting records and providing a truthful account and fair presentation in financial reporting,
- compliance with the legislation and other regulations,
- efficient and successful performance of business operations.

The company's organizational structure includes a Risk Management Committee, and internal audit operations were deployed in the company in 2019.

Martin Novšak
General Director, GEN energija d.o.o.

Danijel Levičar
Business Director, GEN energija d.o.o.

5. General information about GEN

GEN COMPANY PROFILE

REGISTERED NAME
GEN energija d.o.o.

SHORT REGISTERED NAME	REGISTERED OFFICE	E-MAIL	WEBSITE
GEN d.o.o.	**Vrbina 17, 8270 Krško**	**info@gen-energija.si**	**www.gen-energija.si**

ACTIVITY CODE
K/64.200 – Activities of holding companies
D/35.140 – Electricity trading, and other registered activities

ESTABLISHMENT **2001**	REGISTRATION **District Court of Krško, file no. 10425000**
VAT ID NUMBER **SI44454686**	COMPANY REGISTRATION NUMBER **1646613**
SHARE CAPITAL **EUR 250,000,000.00** NUMBER OF EMPLOYEES **60**	BANK ACCOUNTS **Unicredit Banka Slovenija d.d.: SI56 2900 0005 5198 483** **ABANKA d.d.: SI56 0510 0801 4689 187** **NLB d.d.: SI56 0292 4009 0457 150** **SKB d.d.: SI56 0315 5100 0503 323**
CHAIRWOMAN OF THE SUPERVISORY BOARD **Mateja Čuk, MA**	GENERAL DIRECTOR **Martin Novšak** BUSINESS DIRECTOR **Danijel Levičar**

5.1 Bodies of the company GEN as at 31 December 2019

FOUNDER
The Republic of Slovenia, represented under the law by the SSH

SUPERVISORY BOARD

Chairwoman	Deputy Chairman
Mateja Čuk, MA	**Miha Butara**

Members

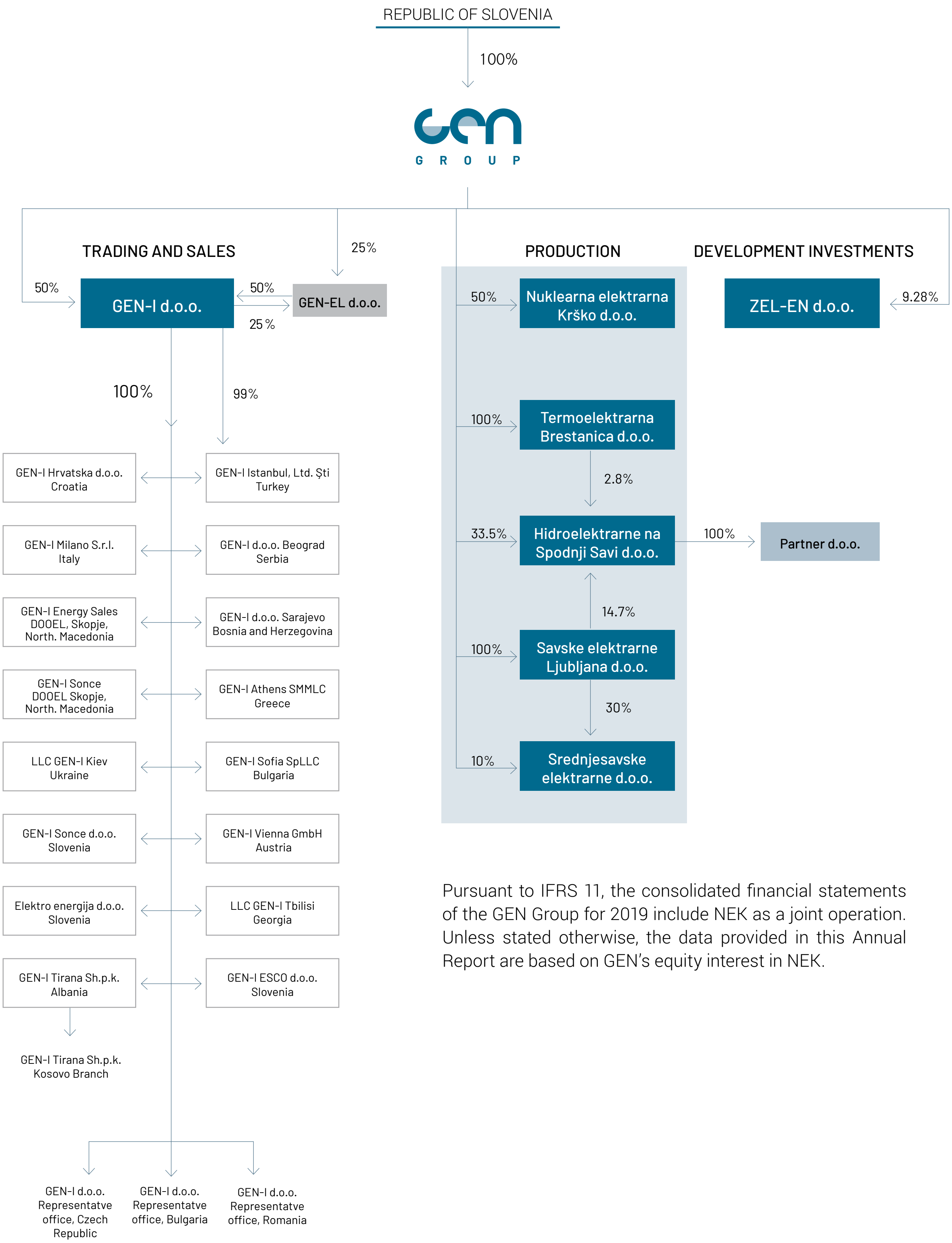
Miha Šebenik	**Lovro Lapanja**	**Samo Fürst**	**Marjanca Molan Zalokar**

MANAGEMENT

GENERAL DIRECTOR	BUSINESS DIRECTOR
Martin Novšak	**Danijel Levičar**

5.2 Affiliated companies

COMPANIES MAKING UP THE GEN GROUP AS AT 31 DECEMBER 2019



Pursuant to IFRS 11, the consolidated financial statements of the GEN Group for 2019 include NEK as a joint operation. Unless stated otherwise, the data provided in this Annual Report are based on GEN's equity interest in NEK.

6. Holding activities of the company GEN

One of the company GEN's principal operations is activities of holding companies, that is, the governing of other legally independent companies through equity interests held in them by the company GEN as the controlling company.

As a holding company, GEN steers and manages the companies making up the GEN Group by participating in general meetings, managing their financial results, sanctioning necessary documents, and appointing representatives to their supervisory boards – all in compliance with relevant Articles of Incorporation and/or Memorandums of Association. Also, the Management of the company GEN regularly coordinates its actions with the managements of these companies.

Production

Nuklearna elektrarna Krško d.o.o. Vrbina 12 8270 Krško www.nek.si	**Savske elektrarne Ljubljana d.o.o.** Gorenjska cesta 46 1215 Medvode www.sel.si
PRINCIPAL ACTIVITY	
Electricity generation at a nuclear power plant	Electricity generation at hydroelectric power plants
COMPANY MANAGEMENT	
Stane Rožman President of the Management Board **Saša Medaković,** Member of the Management Board	**Drago Polak** Director
CHAIRMAN OF THE SUPERVISORY BOARD	
Kažimir Vrankić	The company has no supervisory board.
COMPANY STATUS ACCORDING TO IFRS	
Joint operation	Subsidiary
OWNERSHIP STRUCTURE	
The companies GEN and HEP each hold a 50% stake in this company's share capital. The keystones of corporate governance are laid down in the Intergovernmental Agreement on NEK, under which the company must have the following bodies: general meeting, supervisory board, and management.	Wholly-owned by the company GEN.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
NEK generates around 5,400 GWh of low-carbon electricity a year, which makes up around 40% of Slovenia's total electricity generation output.	SEL's large hydroelectric power plants (Moste HPP, Mavčiče HPP, Medvode HPP, Vrhovo HPP) generate around 320 GWh of electricity a year.

Production

Termoelektrarna Brestanica d.o.o.	Hidroelektrarne na Spodnji Savi, d.o.o.	Srednjesavske elektrarne d.o.o.
Cesta prvih borcev 18 8280 Brestanica www.teb.si	Cesta bratov Cerjakov 33a 8250 Brežice www.he-ss.si	Ob železnici 27 1420 Trbovlje
PRINCIPAL ACTIVITY		
Electricity generation at a thermal power plant, provision of backup power supply for the power grid	Electricity generation at hydroelectric power plants	Electricity generation at hydroelectric power plants
COMPANY MANAGEMENT		
Tomislav Malgaj Director	**Bogdan Barbič** Director	**Dr. Matjaž Eberlinc** Director
CHAIRMAN OF THE SUPERVISORY BOARD		
The company has no supervisory board.	**Janez Keržan, MSc**	**Jaka Slokan**
COMPANY STATUS ACCORDING TO IFRS		
Subsidiary	Subsidiary	Affiliated company
OWNERSHIP STRUCTURE		
Wholly-owned by the company GEN.	The GEN Group holds a 51% equity interest in HESS, which is distributed as follows: 33.5% is held by the company GEN, 14.7% by SEL, and 2.8% by TEB.	The GEN Group holds a 40% equity interest in SRESA: the company GEN 10% and SEL 30%.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS		
TEB supplies electricity during outages of major production units and is a reliable standby power source within Slovenia's power grid.	The company HESS was established in 2008 with the purpose of facilitating the construction of hydroelectric power plants on the lower course of the river Sava. HESS's already completed large hydroelectric power plants (Boštanj HPP, Arto-Blanca HPP, Krško HPP and Brežice HPP) generate around 580 GWh of electricity a year.	Operations of the company SRESA are still largely limited due to the unsigned Concession Agreement for the use of water for electricity generation on the Ježica–Suhadol section of the river Sava.

Trade and sales

GEN-I, d.o.o. Vrbina 17, 8270 Krško www.gen-i.si	**ELEKTRO ENERGIJA d.o.o.** Dunajska cesta 119, 1000 Ljubljana www.elektro-energija.si
PRINCIPAL ACTIVITY	
Electricity trading, sales and purchasing	Sales of electricity and natural gas to consumers and purchasing of electricity. Electricity and natural gas portfolio management.
COMPANY MANAGEMENT	
Robert Golob, DSc, President of the Management Board **Danijel Levičar**, Board Member **Igor Koprivnikar**, DSc, Board Member **Andrej Šajn**, MSc, Board Member	**Majda Leban**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
The company has no supervisory board.	The company has no supervisory board.
COMPANY STATUS ACCORDING TO IFRS	
Subsidiary	Subsidiary
OWNERSHIP STRUCTURE	
The companies GEN and GEN-EL each hold a 50% stake in this company's share capital.	GEN-I holds a 100% equity interest in the company.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
The GEN-I Group purchases electricity and natural gas from producers, trades in them both locally and internationally, and sells them to consumers.	The company specializes in selling electricity, natural gas and other energy carriers to consumers, purchasing from producers, and bilateral and exchange trading in standardized products in the wholesale market.

R&D and investments

ZEL-EN
razvojni center energetike, d.o.o.

ZEL-EN, razvojni center energetike d.o.o. Vrbina 18, 8270 Krško www.zel-en.si	**GEN-EL d.o.o.** Vrbina 17, 8270 Krško
PRINCIPAL ACTIVITY	
Research and development for the energy industry	Investment management
COMPANY MANAGEMENT	
Domen Zorko, Director	**Martina Pohar**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
The company has no supervisory board.	**Andrej Ribič**
COMPANY STATUS ACCORDING TO IFRS	
Investment	Subsidiary
OWNERSHIP STRUCTURE	
The company GEN holds a 9.28% business interest in ZEL-EN.	The company GEN holds a 25% equity interest, GEN-I 25%, Elektro Ljubljana 25%, the Fund of Craftspersons and Entrepreneurs 16%, and Gorenjska banka 9%.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
By acquiring a stake in ZEL-EN, the company GEN has become eligible to receive development funding from the ERDF for research in the field of nuclear power technology.	The company was established for the purpose of ownership consolidation of the GEN-I Group.

7. Corporate policy of the company GEN

The corporate policy of the company GEN derives from the Development Plan of the GEN Group. The company GEN is the initiator and promoter of this policy at all decision-making levels within the GEN Group. As a result, the corporate policy is becoming the cornerstone of operations across the GEN Group.

7.1. Vision

The GEN Group is taking over a leading role in the region in providing consumers with a reliable, safe, competitive and low-carbon supply of energy.

7.2. Mission

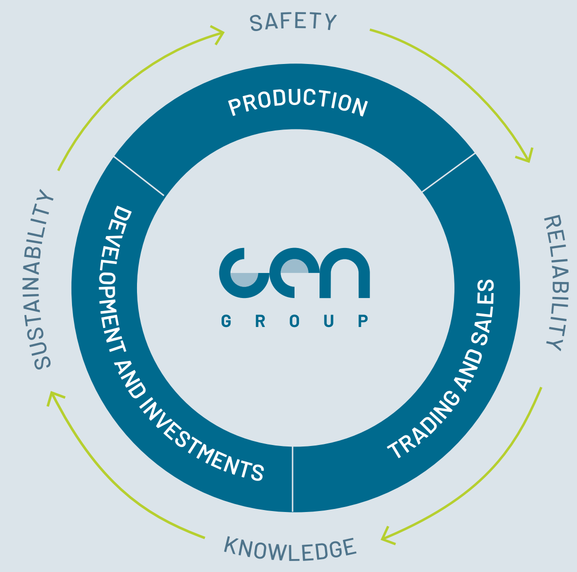
With its efficient and safe production, the GEN Group is an essential building block for ensuring the stability of Slovenia's electric power grid. By expanding our nuclear power generation programme, we are making a significant contribution to energy self-sufficiency and the quality of living of the population. Through a value added chain, which incorporates production, trading and sales, as well as investments in existing and new production facilities, we ensure a reliable, competitive and consumer-oriented supply of energy and energy services.

7.3. Values

Allowing us to fulfill our vision and mission – now and in the future, our core values are:

- **knowledge** (preservation and transfer of cutting-edge knowledge, and development of new knowledge),
- **reliability** (in operational terms and in delivering on our pledges),
- **safety** (technological, personal and environmental),
- **sustainability** (in relationships, business operations, and conservation of the natural environment).

INTERPLAY OF GEN VISION, MISSION AND VALUES



7.4. Strategic goals

The strategic goals of the GEN Group are based on the interplay of our vision, mission and values and are operationally linked to the six capitals through which the GEN Group generates added value.

The GEN Group's strategic goals are:

1. PRODUCTION RESOURCES

- Start of construction of a second nuclear power plant unit, to be completed by 2030;
- Effective implementation of all necessary upgrades at NEK, a successfully completed decennial safety review, and extension of NEK's operating life at least until 2043;
- Development of hydropower sources on the river Sava, with the completion of Mokrice HPP by 2025 and construction of the first three hydroelectric power plants on the middle course of the Sava, Suhadol HPP, Renke HPP and Trbovlje HPP, by 2035;
- Continuation of the project to replace gas turbine units at TEB by building a seventh gas turbine unit by 2021;
- Development of business models for microgeneration, storage and distribution of energy.

2. NATURAL CAPITAL

- Mitigation of climate change by shifting to low-carbon sources for the supply of electricity – today and in the future;

CAPITALS OF THE GEN GROUP

Infrastructural capital

Nuclear power plant, hydroelectric power plants on the river Sava, gas-fired thermal power plant (ancillary services), and distributed renewable sources (solar power plants).

Advanced software/IT infrastructure for facilitating effective energy trading and sales at home and abroad.

Natural capital

Low-carbon energy sources: primarily nuclear and hydro.

Financial capital

Financial resources (mainly through equity and borrowing) needed for providing comprehensive electricity supply services.

Employees and human capital

The knowledge, skills and dedication of our employees for performing our principal activities.

Intellectual capital

Systematic development of a knowledge and experience base and a system for transferring intellectual capital onto new recruits.

Social capital

Relations with external stakeholders in providing comprehensive electricity supply services.

Promoting the understanding and appreciation of the importance of energy supply for our daily lives and enduring social prosperity.

- Conservation of biodiversity through proper operation of energy facilities, resulting in the lowest possible environmental footprint;
- Preservation of natural surfaces by selecting the optimal mix of sustainable sources for the future energy supply, one that poses a minimum disturbance to the environment so as not to cause permanent degradation of the environment.

3. FINANCIAL CAPITAL

- Keeping the profitability of the GEN Group at a competitive level, taking into account the Group's systemically important role for Slovenia;
- Facilitating development with own resources and together with partners in a financially viable way for a stable, sustainable and long-term operation of the Group.

4. HUMAN RESOURCES

- Maintaining the highest standards of personal integrity as a prerequisite for safety;
- Securing nuclear knowledge across the hierarchy and particularly in the Management of the GEN Group's parent company as a prerequisite for safe operation;
- Providing state-of-the-art systems for the management and control of energy facilities and training for energy system operators.

5. DEVELOPMENT AND PRESERVATION OF KNOWLEDGE

- Systematic succession planning for the managements in the GEN Group;
- Providing appropriate methods of knowledge transfers, including digitization of documentation, databases and procedures;
- Systematic implementation of internal and external training programs in accordance with the highest standards, including practice sessions on simulators;
- Further development of trading and sales functions within the GEN Group, achieving full control over them at the Group level.

6. ATTITUDE TO THE SOCIAL ENVIRONMENT

- Transparent and open operations of the companies making up the Group and keeping all stakeholders abreast of the operations of the GEN Group;
- Strengthening the understanding and knowledge of important aspects of electricity among various stakeholder groups;
- Establishing close cooperation with the local environment at all production sites by maintaining and developing high value-added jobs and by partnering with local businesses and service providers.

8. Pursuing sustainability focuses through responsible operations

For us in the GEN Group, being responsible in what we do means to be in constant pursuit of sustainability focuses – in other words, we work to achieve:

- operational efficiency and business excellence,
- environmental responsibility, and
- care for society in everything the GEN Group and its constituent companies do.

At the heart of GEN's sustainability-focused strategic pillars are safety and knowledge, the two biggest determining factors of success in the following spheres: operational, commercial, environmental and social.

8.1 Strong safety culture

Commitment to safety is at the heart of our responsible operations across the board:

- environmental responsibility: showing a sense of responsibility towards the local people and the environment in which we operate,
- care for society: ensuring occupational health and safety for our employees, both in production and office settings,
- operational efficiency: achieving operational efficiency of the GEN Group's production facilities and the resulting business excellence.

As far as safety goes, our top priority is ensuring nuclear safety. The safety culture has been incorporated into all decision-making and work processes across the companies making up the GEN Group.

8.2 Achieving excellence through knowledge

Knowledge is the other common denominator of our responsibility in the operational, business, environmental and social dimensions. We are committed to achieving and maintaining a high level of knowledge, both internally and externally. In-house knowledge is provided by professionally qualified employees with suitable formal qualifications, functional training, experience and skills needed for responsible, efficient, effective and dedicated work. The motivation to gain and spread knowledge – both in-house and among external stakeholders – is essential to our business operations.

We are fully aware of the importance of having a society built on knowledge and professionalism. The knowledge and understanding of energy and the energy industry among various external stakeholders play an important part in securing a feasible, sustainable energy future for Slovenia.

8.3 Quality assurance policy

We constantly seek to:

- raise our quality assurance and safety culture to the highest possible level with the aim of meeting the demands in the comprehensive supply of electricity to consumers,
- create an in-house working environment that will encourage employees to get actively involved in the pursuit of goals,
- meet the requirements and continually improve the performance of our quality management system, and
- streamline operations by standardizing work processes and assignments and by optimizing the tapping of resources.

8.4 Implementing the GEN Group's corporate policy

Development Plan of the GEN Group

We have been fulfilling the action plan for optimizing the operations of the company GEN and the GEN Group since 2015, which was laid down based on the GEN Group Development Plan for the 2015–2019 period and passed by the SSH in its capacity as the company founder. We seek to fulfill our set goals and implement the projected measures aiming to streamline operations and improve cost-effectiveness.

We have updated the GEN Group Development Plan in 2019, and now the document is pending approval by the representative of the founder.

Cooperation, coordination and communication among the companies

Open communication among all the companies making up the GEN Group ensures proper and prompt access to important information essential to:

- managing the companies,
- steering their operation,

- keeping track of approved investments, and
- implementing development activities.

We pay special attention to the specific nature of running and operating a nuclear installation, where the owner is required to demonstrate an in-depth understanding of the needs for securing suitable human resources and obtaining sufficient financial resources so as to ensure reliable and safe operation of NEK. NEK's operating results in recent years are proof that the company has implemented appropriate organizational and HR upgrades needed to ensure successful and safe operation of the power plant in the long term.

Stakeholder relations

We establish, foster and improve relations with our key stakeholders in line with our values of conducting responsible, efficient and transparent business operations based on knowledge, professionalism, and continuous efforts to ensure safety.

We engage in direct dialogue with our stakeholders, work with them, and include them in our operations in various ways based on their interests and the identified scope of interactions. Gaining the stakeholders' trust in what we do is key to further improving the value and reputation of the GEN Group.

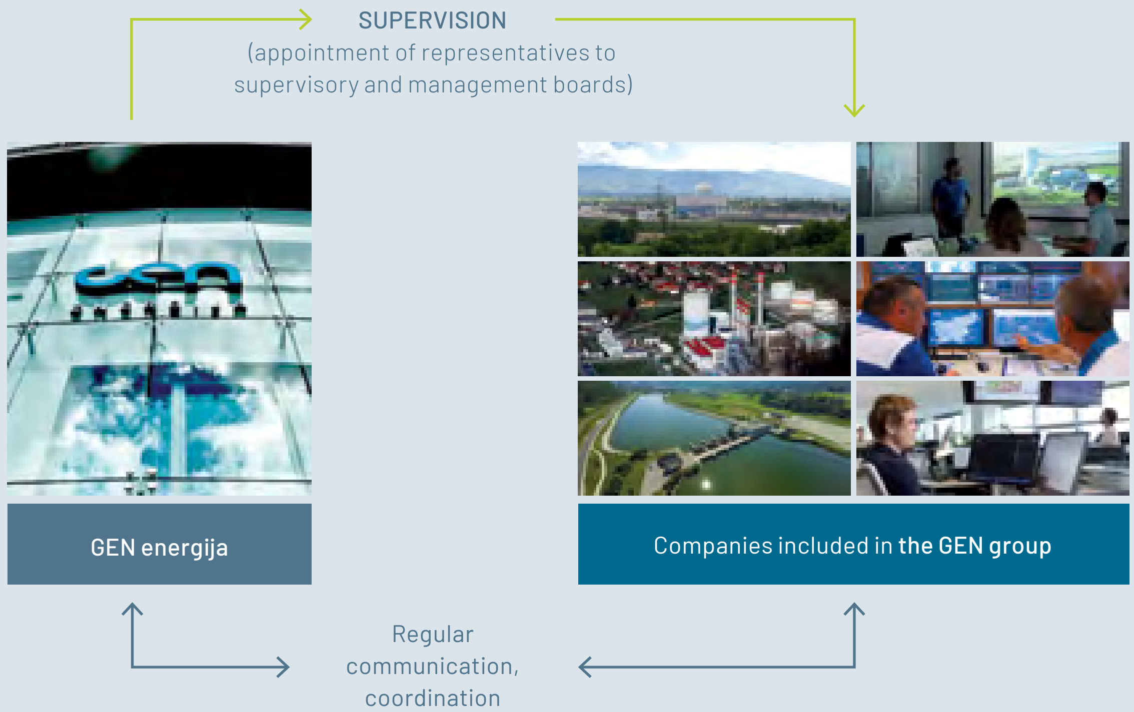
Fulfilment of strategic goals

We are pleased to say that the GEN Group is meeting its strategic goals in line with the GEN Group Development Plan and in all respects – operational efficiency and business excellence, as well as environmental responsibility and care for society.

We have strengthened our ownership and business relationships in the area of electricity trading and sales, which will allow us to stay competitive in the market in the long term. On account of the GEN Group's vertical integration, the production facilities – with their products – have direct access to end users and residential and commercial consumers. Our control over the entire value chain is our biggest competitive advantage.

The optimization of service costs in the entire chain – from electricity generation to sales – brings many benefits, particularly to buyers of electricity, both in the residential and commercial consumer segments. In doing so, GEN energija creates suitable conditions for the stable operation and business of all the GEN Group's power plants, which account for a total of 40% of all electricity generated in Slovenia – with more than 99% coming from low-carbon sources.

GEN'S INVOLVEMENT WITH COMPANIES INCLUDED IN THE GEN GROUP



GEN AND STAKEHOLDERS

9. Notable events in the companies making up the GEN Group

January

TEB

Continued activities on the project “Construction of 40–70MW gas turbines for Brestanica Thermal Power Plant”, Phase 1B. Following the announcement in December 2018 of a call for tenders for LOT1, which comprises the manufacture, supply, installation, testing and commissioning of the main technological equipment and related construction works, TEB in January 2019 continued preparing documentation for the announcement of a call for tenders for awarding a public contract for LOT2 – high-voltage equipment.

Development of a new TEB Development Plan for the 2019–2025 period, which includes a development vision up until 2030.

GEN-I

Earned recognition as the industry’s most reputable employer.

February

TEB

Verification of a greenhouse gas emissions report by an authorized institution based on the issued GHG Emissions Permit.

Continued public contract tendering procedure for the project “Construction of 40–70MW gas turbines for Brestanica Thermal Power Plant”, Phase 1B – LOT1: negotiation with the bidder who submitted an acceptable bid.

Documentation related to the award of a public contract for high-voltage equipment LOT2 was posted on the Public Procurement Portal.

March

HESS

The Administrative Court revoked the Environmental Protection Approval for Mokrice HPP and returned the case to ARSO for reconsideration.

GEN-I

Again recognized as the most trusted brand.

NEK

A three-week inspection of the operation of NEK was carried out by the World Association of Nuclear Operators (WANO). The WANO team comprised twenty-six experts from ten countries. During the inspection, the processes at NEK were compared to the industry’s best worldwide practice with the aim of identifying areas for improvement. The have one’s own practices compared to experience at other nuclear sites around the world and to receive an objective assessment of the state of operation serves as motivation for achieving the highest standards of nuclear safety, high availability and excellence in operating a nuclear power plant. At the end of the inspection, the team pointed out four exemplary practices and eight possible areas for improvement. The team’s overall impression of the power plant was very favourable, and NEK was highly commended on its investments in supporting nuclear safety and on its exemplary cooperation with WANO and other international institutions.

April

TEB

Following the submission of an application, a financial incentive in the form of an Eco Fund grant was awarded to TEB for its heating system energy retrofit project. This amount accounts for 20% of the actual allowable costs of the investment.

A contract was signed with the supplier of high-voltage equipment for the project "Construction of 40–70MW gas turbines for Brestanica Thermal Power Plant", Phase 1B – LOT2.

GEN-I

The 14-million-euro green bond issued by the company GEN-I Sonce in 2017 was assessed as excellent (Green Bond Assessment – GB1) by the rating agency Moody's in New York.

May

SEL

After obtaining prior consent from the founder, SEL signed an agreement with HSE d.o.o. to sell its business interests in the company HSE Invest d.o.o.

SEL and GEN signed with HSE Appendix No. 2 to the Agreement on the Sale and Purchase of Business Interests and on the Definition of Relationships between the Contracting Parties in the company HESS.

TEB

According to the schedule for the TEB heating system energy retrofit project, activities on the construction site began in the first week of May.

GEN-I

Received the Trusted Brand 2019 award for a sixth time.

NEK

The power plant hosted representatives of the WANO Paris Centre and the heads of the WANO Mission, who presented the results of the completed mission. NEK was ranked among the top operating power plants according to WANO criteria and received the highest score. Recommendations from major operational events were implemented at a high level, well above the WANO Paris Centre's average.

June

TEB

Innovators from TEB received a bronze award for their "Gas Turbine Cooling System Optimization" innovation at the awards ceremony for Best Innovations in the Posavje region for 2019.

A new industrial fire engine, manufactured for TEB's on-site needs and equipped with state-of-the-art firefighting technology, was delivered. The equipment is customized to perform fire service operations (fire watch during hot work, when pumping or pouring fuels and chemicals, during fire safety surveillance, maintenance of oil systems) and to extinguish and localize initial fires until the arrival of emergency crews of professional firefighters. The equipment is also customized for emergency response in the event of spillages of hazardous substances.

HESS

Received notice from the Slovenian Research Agency (ARRS) that HESS' project in the area of hydrogen technologies has been selected to receive co-funding for 75% of the project value.

GEN-I

Received a bronze award for a self-sufficiency solar power plant installed on a multi-apartment building, which was awarded for the sixteenth time by the Posavje Regional Chamber of Commerce for Best Innovations in the Posavje region for 2019. The Chamber places innovation activity among the drivers of regional sustainable economic development and the promotion of entrepreneurship.

August

GEN

The Prime Minister of the Republic of Slovenia, Marjan Šarec, visited the companies GEN and NEK and endorsed the JEK 2 project.

The working meeting hosted an expert delegation of the Minister of Infrastructure of the Republic of Slovenia. The delegation met with the Management of GEN energija and went on a guided tour of the GEN Group Control Centre and the interactive visitor center The World of Energy.

September

NEK

Hosted representatives of the WANO Paris Centre on a two-day visit and briefed them on the progress made with regard to action plans in eight areas for improvement that were identified during the WANO expert review in March. They discussed in detail various areas of occupational health and safety and other project changes.

SEL

Successfully completed Dynamic Thermal Rating (DTR) qualification testing on generating unit 2 at Medvode HPP for providing primary frequency control. By the end of the year, Moste HPP was also set up to provide primary frequency control, meaning that all large HPPs owned by SEL are now fit to perform this particular function.

GEN-I

ELES and GEN-I announced a breakthrough in green transformation by utilizing smart grids.

Earned the National Winner title in the Social and Environmental Responsibility category in one of the world's largest cross-industry and cross-border competitions – European Business Awards.

Signed a letter of intent for cooperation with the Municipality of Zagorje ob Savi and held the opening of a production facility-mounted solar power plant, which was part-funded through EU Cohesion Funds.

October

HESS

Received an opinion from the Institute of the Republic of Slovenia for Nature Conservation (ZRSVN), in which the impacts of the construction of Mokrice HPP in terms of environmental disturbance are assessed as significant (grade D).

NEK

Extensive scheduled overhaul successfully carried out in the projected time frame (28 days) – the shortest since the introduction of the 18-month fuel cycle.

The GEN Group Management was joined by the Minister and State Secretary from the Ministry of Infrastructure, the Director of the Energy Directorate, the SSH Management Board, and the GEN energija Supervisory Board for the viewing of the refuelling at NEK.

GEN-I

With a conference in Vienna, 12 partners from eight European countries completed a four-year international project designed to find new grid balancing solutions for a changing world of electricity generation. Coordinated by ELES, the project also involved GEN-I's development team.

November

GEN

The Supervisory Board of GEN energija gave the Management prior consent for the approval of the Prefeasibility Study (PFS) for Krško Nuclear Power Plant 2.

HESS

ARSO notified the developer of its intention to issue a rejection decision for the Environmental Protection Approval for Mokrice HPP.

TEB

As a first-timer, TEB entered the annual contest Akademija, held by the newspaper Finance, with its 2018 Annual Report and earned the Best 2018 Annual Report award in its category.

December

GEN

Revised the rules and system of participation in auctions for ancillary services.

GEN-I

Received the 2019 HR&M Project award.

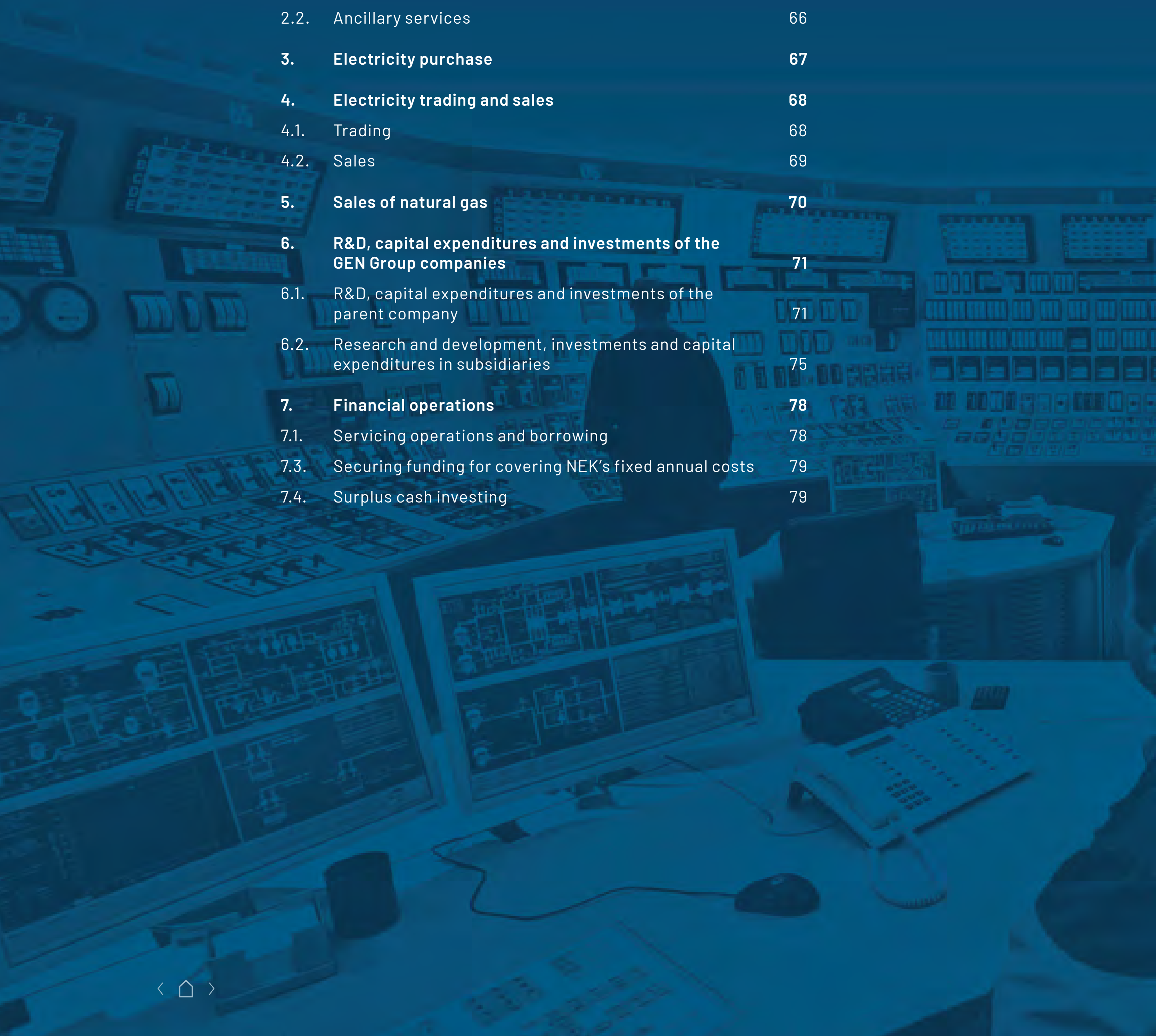
The GEN Group estimates that after the reporting period and up until the release of this Annual Report, there were no business events that would have a material impact on the company's financial statements for 2019.

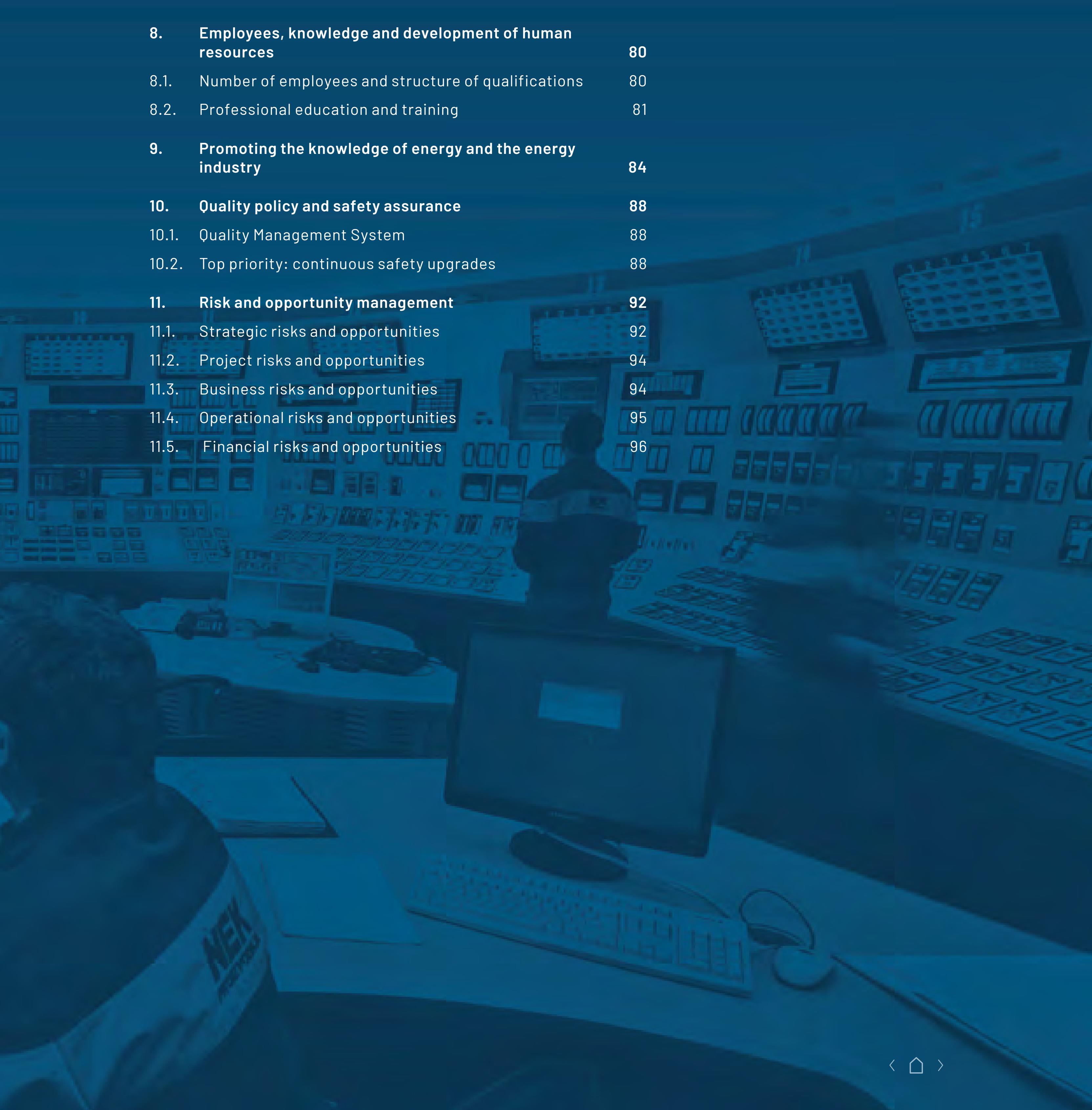
In January 2020, the company GEN made a transfer in the amount of EUR 7,575 thousand to NEK as paid-in capital reserves in accordance with a resolution adopted by the NEK General Meeting.

As Slovenia faced an outbreak of COVID-19, the GEN Group companies advised its employees as early as February 2020 to take precautions to avoid the COVID-19 infection and to keep business trips down to a minimum; when an epidemic was declared, the companies took steps to organize and implement telecommuting for all employees, with some exceptions. The GEN Group companies made appropriate adjustments to its work processes so as to ensure safe and reliable operation of all the Group's production facilities – all this time, their operation was indeed smooth and without interruptions. Due to its surplus cash investments in short-term deposits and the slowdown in the planned investments, the Group has at its disposal enough available assets to be able to continue smooth financial operations during short periods of emergency.

No other events occurred after the reporting date that would have a significant impact on the GEN Group and its business report for 2019.

II BUSINESS REPORT




NEK

1. Economic trends and their impact on the electricity sector

ECONOMIC GROWTH IN THE EUROZONE THE WEAKEST IN SIX YEARS

+1.2%

Data source: UMAR

SLOVENIA'S ECONOMIC GROWTH RATE WAS 2.4%

+2.4%

Data source: UMAR

INDUSTRIAL PRODUCTION GROWTH RATE INCREASED FOR A SIXTH YEAR RUNNING

+3.0%

Data source: UMAR

Increasing industrial production is important for the electricity sector since it is a major driver of rising consumption of electricity and other energy carriers.

AVERAGE ANNUAL INFLATION RATE

Consumer prices
+1.7%

+1.6%
INFLATION RATE IN SLOVENIA

Commodity prices
+1.3%

Prices of services
+2.9%

Data source: SURS in UMAR

UNEMPLOYMENT IN SLOVENIA SHRANK

-8.9%

Data source: SURS

Factors affecting Slovenia's energy sector in 2019

PROCESS OF DRAWING UP THE NATIONAL ENERGY AND CLIMATE PLAN

Multi-stakeholder discussions on the key challenges of drawing up the National Energy and Climate Plan:

At the end of 2018, the Energy Directorate of the Ministry of Infrastructure prepared the first draft of the National Energy and Climate Plan (NECP). Its preparation and discussion continued in 2019, to which we provided our feedback with comments several times. The draft NECP was finalized in December 2019, followed by a public hearing in January and February 2020 and culminating in the government's approval of the NECP on 27 February 2020.

VOLATILE PRICES OF ELECTRICITY

around EUR 48,75 per MWh

HYDROLOGY

Subnormal hydrology

NET IMPORT

Slovenia continues to be a net importer of electricity (18.8%).

2. Electricity production and ancillary services

2.1. Electricity production

The large production units in the GEN balancing subgroup generated a combined total of 3,403 GWh of electricity in 2019. As much as 81.3% of the combined total came from the nuclear power plant. The hydroelectric power plants and the gas-fired power plant accounted for 17.9% and 0.8% respectively. Thanks to GEN Control Centre, which coordinates the operations across the GEN balancing subgroup, the production units all operated in perfect unison, and all unpredictable events were effectively dealt with, as evidenced by the business results.

DIAGRAM OF INTERCONNECTIONS WITHIN THE GEN BALANCING SUBGROUP

ELECTRICITY PRODUCTION UNITS OF THE GEN GROUP

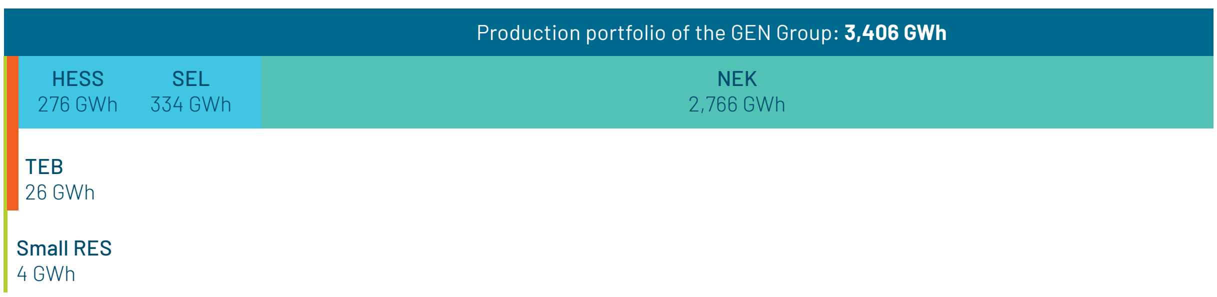
NEK		NEK	Total
Net electrical output	MW	696.0	**696.0**
Generator power rating	MVA	850.0	**850.0**

		Moste	Završnica	Mavčiče	Medvode	Vrhovo	SHPP	
SEL	No. of gener. units	2	1	2	2	3	4	Total
Net electrical output	MW	13.0	8.0	38.0	25.0	34.0	0.3	**118.3**
Generator power rating	MVA	18.0	11.0	50.0	27.0	42.9	0.4	**149.3**
Gross head Hbr.	m	70.0	177.0	17.5	20.8	8.7		**294.0**
Installed flow rate Qi	m^3/s	26.0	6.0	260.0	150.0	500.0		

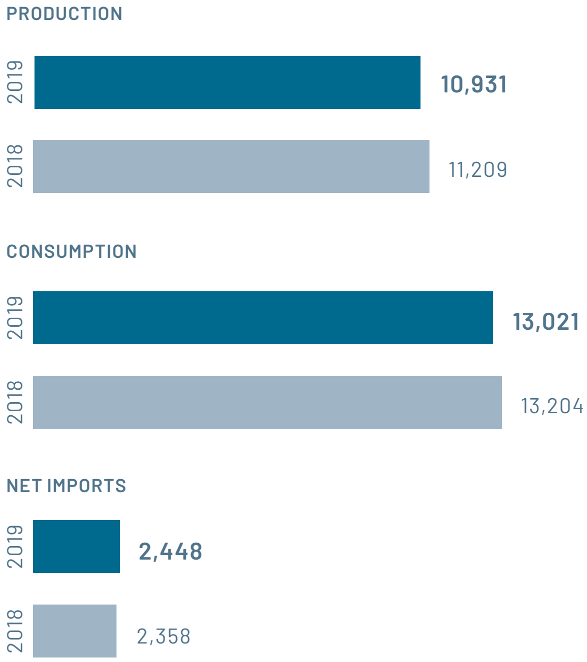
		Boštanj	Arto-Blanca	Krško	Brežice	
HESS	No. of gener. units	3	3	3	3	Total
Net electrical output	MW	32.5	39.1	39.1	47.4	**158.1**
Generator power rating	MVA	43.5	49.5	49.5	64.5	**207.0**
Gross head Hbr.	m	7.5	9.3	9.1	11.0	**36.9**
Installed flow rate Qi	m^3/s	500.0	500.0	500.0	500.0	

TEB		PB1	PB2	PB3	PB4	PB5	PB6	Total
Net electrical output	MW	23.0	23.0	23.0	114.0	114.0	53.0	**350.0**
Generator power rating	MVA	32.0	32.0	32.0	155.0	155.0	67.4	**473.4**

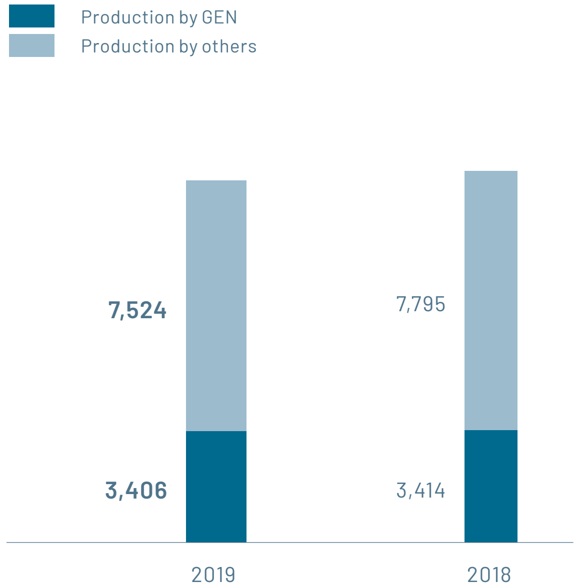
PRODUCTION PORTFOLIO OF THE GEN GROUP



SLOVENIA'S ELECTRICITY MARKET in GWh



PRODUCTION OUTPUT OF THE GEN GROUP COMPANIES IN PROPORTION TO SLOVENIA'S TOTAL ELECTRICITY PRODUCTION in GWh



ELECTRICITY GENERATION OUTPUT OF THE GEN GROUP COMPANIES

Electricity generation output in GWh	2019	2018	Ratio %
NEK	2,766	2,745	101
HESS for GEN	276	301	92
SEL	334	352	95
TEB	26	12	217
Small RES	4	4	100
TOTAL	**3,406**	**3,414**	**100**

* In 2019, the company GEN received grants – operational support for the electricity generated from renewable energy sources – in the amount of EUR 13,083, which have been disclosed by the company GEN in accordance with Article 4 of the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act (Official Gazette of the Republic of Slovenia, No. 33/2011).

In addition to large production facilities, the GEN Group companies also own small-scale production units, which are operated and managed independently and are excluded from the GEN balancing subgroup. The small-scale production units of the GEN Group companies generated a combined total of 3.89 GWh of electricity from renewable energy sources in 2019.

Operational efficiency

The 2019 production output of the GEN Group's large units was nearly identical to that from 2018. While the output from the hydroelectric power plants was lower compared to 2018 due to weaker hydrological conditions, the production at TEB and NEK was proportionally higher. The production outputs of TEB and NEK were higher on account of greater engagement of the former's generating units for commercial purposes and the latter's shorter overhaul outage compared to 2018.

After having taken over the remote control of Boštanj HPP and Arto-Blanca HPP in 2016 and adding Brežice HPP, GEN Control Centre also took over the remote control of Krško HPP. In operation since 2008, GEN Control Centre not only operates the chain of hydroelectric power plants on the lower course of the Sava but also plans and oversees the production at SEL, TEB and NEK. GEN Control Centre helps ensure optimal production across the Group's power plants and optimize operating costs for the entire GEN Group, and it also coordinates the provision of ancillary services to the national electric power grid (primary frequency control, tertiary frequency control activations, reactive power control, black start capabilities).

NEK

Krško Nuclear Power Plant (NEK) is the largest production unit, delivering base load power on the daily consumption curve throughout the year. Its 2019 electricity production output was 5,533 GWh. The amount of electricity available to the GEN Group, pursuant to the Intergovernmental Agreement on NEK, was 2,766 GWh.

The power plant's operation was safe all year long. NEK's 2019 operations were significantly affected by the fact that a scheduled major overhaul was scheduled for that year (the fuel cycle there, i.e. the interval between two successive fuel replacements, is 18 months, and the next refuelling is scheduled for April 2021). In terms of production, NEK was only shut down once in 2019, specifically in October, to allow the scheduled major overhaul to be carried out. NEK's production result in 2019 exceeded the target and stood at 101.9%.

NEK CAPABILITY AND AVAILABILITY FACTORS IN 2019

NEK capability factor (according to WANO): 91.72%

Capability factor (Performance Indicators as defined by the World Association of Nuclear Operators – WANO) is defined as the ratio of the available electricity generation over a given period to the reference electricity generation over the same period, expressed as a percentage.

NEK availability factor: 92.24%

Availability factor is defined as the ratio of the number of hours a generator was on-line over a given period to the total number of hours in the reference period, expressed as a percentage.

SEL

Within the national power grid, SEL's production units are primarily designed to deliver electricity on the daily load curve while allowing the possibility of storing night-time energy for use during the day. Most of the hydroelectric power plants on the river Sava are run-of-the-river facilities with daily water storage capacity. As such, they can participate in grid-wide frequency control on a day-to-day basis in response to an unevenly distributed consumption curve (at different times of the day). Moste HPP is the only hydroelectric power plant in Slovenia with a weekly storage capacity. This means it can participate in grid-wide frequency control on a weekly basis in response to an unevenly distributed consumption curve.

In 2019, the combined output of SEL's large hydroelectric power plants was 334 GWh, which is 4.9% lower than the year before. The lower production output compared to the previous year can be attributed to subnormal hydrological conditions of the river Sava. SEL's actual output for 2019 stands at 104.5% of the target from the business plan.

The company successfully completed all the overhauls and inspections on its generating units scheduled for 2019.

TEB

TEB's production output is typically largely dependent on how often the power plant is started up as a backup source for offsetting any failures of any of the larger units in the national power grid. When the situation in the electricity market is favourable, however, a portion of TEB's output is also used for satisfying the market demand. TEB generated 26.4 GWh of electricity in 2019. But since GEN supplied TEB with electricity from other production units in the GEN balancing subgroup in order to satisfy TEB's on-site energy needs, TEB's net production output was 21.1 GWh.

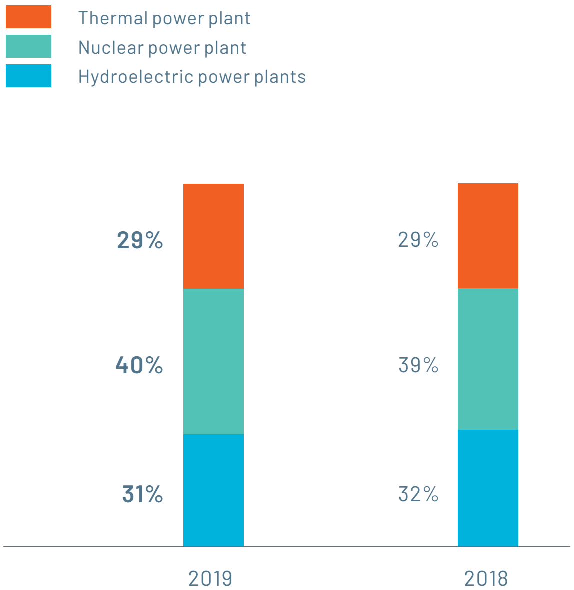
For the purpose of tertiary frequency control of the power grid, a total of only 8 activations were recorded in 2019: individual gas turbine units at TEB were started up 12 times, and SEL and HESS recorded 5 and 2 start-ups respectively. The combined output was 1.5 GWh of electricity. Despite a small number of start-ups, TEB's production output was up by 115% over the previous year, which indicates that in 2019 most of the electricity generated there went into the electricity market, where prices were sufficiently high due to weaker hydrology and shortage of energy during some months. The new PB6 gas turbine unit was mainly used for commercial operation.

SUSTAINABLE AND RENEWABLE ENERGY SOURCES IN THE ELECTRICITY GENERATION PORTFOLIO

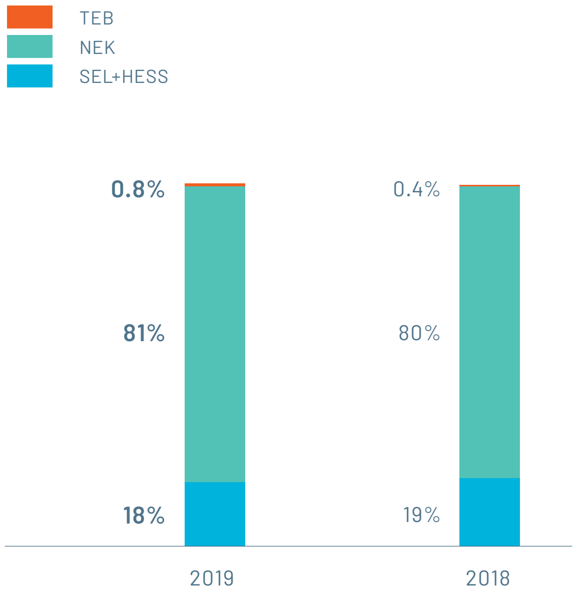
	Power plant	Generated electricity in GWh	Proportion of total generation in %
Nuclear	NEK	2,766	82
Hydro	HESS for GEN	276	19
	SEL	334	
TOTAL		**3,376**	**100**

* The table does not include the electricity generated by small hydroelectric power plants (SHPPs) and small solar/photovoltaic power plants (SPPPs) because, compared to the outputs of the nuclear power plant and the large hydroelectric power plants, it accounts for only a small fraction (a total of 0.08% of the GEN Group's total electricity output).

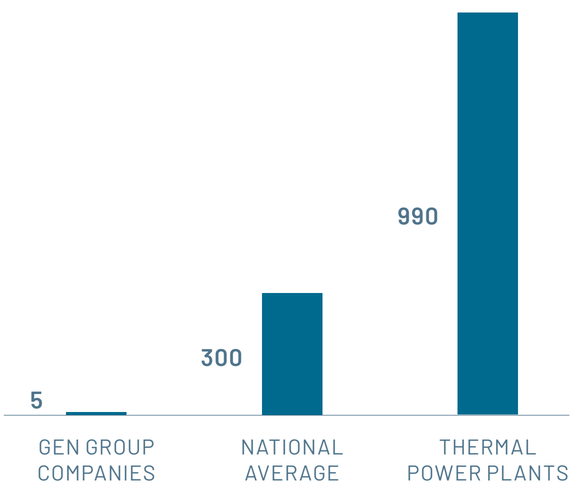
BREAKDOWN OF ELECTRICITY GENERATION SOURCES IN SLOVENIA



BREAKDOWN OF ELECTRICITY GENERATION SOURCES IN THE COMPANIES MAKING UP THE GEN GROUP



COMPARISON OF CO_2 EMISSIONS OF OPERATING POWER PLANTS in g CO_2/kWh



TEB also completed its planned annual reviews successfully and on schedule and carried out measurements and visual inspections of the equipment and instrumentation in accordance with the maintenance plan. Nothing out of the ordinary was found during the refit and reviews other than the pending issue of the three old gas turbine units, PB1, PB2 and PB3, spare parts (particularly instrumentation) for which are increasingly harder to procure.

HESS

GEN received 276 GWh of electricity from HESS in 2019, which is a 8.3% decrease over the previous year. The lower production output is due to weaker hydrology of the Sava compared to the preceding year. HESS' production output for 2019 stands at 93.9% of the target from the business plan.

Low-carbon energy source portfolio

As much as 99.1% of all the electricity generated by the GEN Group companies' power plants came from sustainable and renewable sources – nuclear and hydro.

In 2019, the GEN Group again made a large contribution to promoting low-carbon electricity generation. Efficiently and safely, and with a view to preserving and improving the quality of the environment and mitigating climate change.

In terms of CO_2 emissions, the production portfolio of the companies making up the GEN Group is environmentally acceptable and oriented towards sustainability by comparison with the national portfolio of electricity generation sources.

In 2019, the average volume of CO_2 emissions generated by the operating power plants of the GEN Group companies, whose main energy sources are low-carbon nuclear and hydro, was a mere 5 g per kWh. At the national level, thanks to the proportion of electricity generated by the nuclear power plant and hydroelectric power plants within the energy mix, Slovenia ranks high among the countries with the lowest CO_2 emissions in electricity generation – this despite fossil fuel-burning thermal power plants, whose emissions are the highest, at the average of 990 g CO_2 per kWh, which is more than three times the national average. The national average in 2016 was around 300 g per kWh.

2.2. Ancillary services

Due to its remarkably stable operation and ability to provide large amounts of reactive power, NEK also plays a key support role in the balancing of critical operational and voltage conditions in the electric power grid within the European ENTSO-E network.

SEL and HESS units provide primary and tertiary frequency control and reactive power. Some of SEL's generating units can also be started up without an external power supply.

TEB's principal function within Slovenia's electric power grid is to provide ancillary services (tertiary frequency control, capability to perform secondary frequency control when the larger gas turbine unit is in operation, operating black-start generators, and island mode operation for delivering an independent direct power supply to NEK). Playing a special role, TEB's systems, wiring, piping and installations all operate under specific, harsh conditions with many start-ups and a small number of operating hours, which in turn calls for a specific approach to maintenance.

Infrastructural capital

Electricity generation

- at the Nuclear Power Plant (NEK)
- at hydro power plants (SEL and HESS)
- at the gas-fired power plant (TEB)

Operational efficiency

Natural capital

Low-carbon energy source portfolio:

- 99.7% of electricity is generated from sustainable and renewable energy sources,
- CO_2 emissions per kWh generated.

Employees and intellectual capital

Knowledge and skills of employees to ensure operational efficiency of generation units.

Social capital

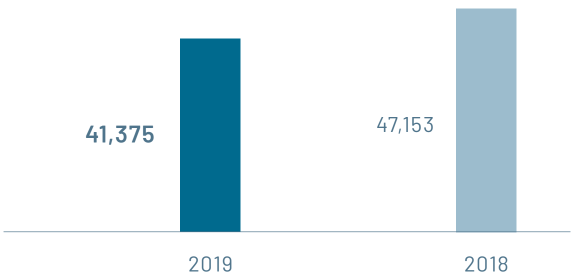
System services, stabilisation of critical operating conditions, tertiary regulation.

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3.

3. Electricity purchase

In 2019, the companies making up the GEN Group purchased 41,375 GWh of electricity. This volume was down by 12.25% over the previous year, which effectively means that it was not necessary to purchase as much electricity through trading as the year before.

AMOUNTS OF ELECTRICITY PURCHASED BY THE GEN GROUP COMPANIES in GWh



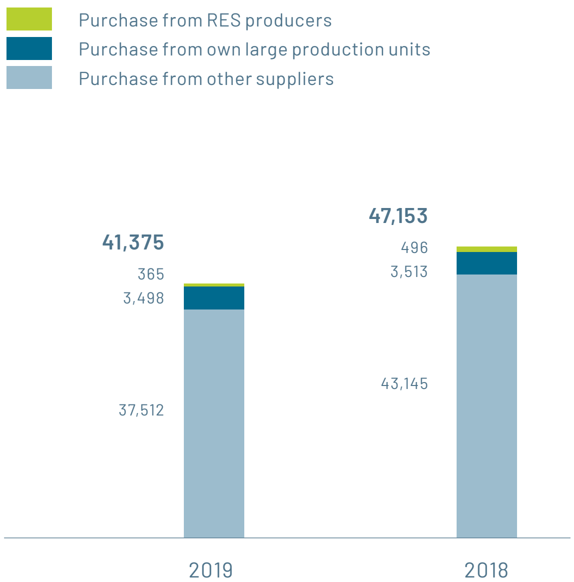
The GEN Group's purchase portfolio comprises electricity from various sources. Smaller in volume yet very important in business terms is electricity from our own production units, which predominantly harness nuclear energy and renewable sources. 3,498 GWh of electricity was purchased in 2019 from the large production units owned by the GEN Group companies.

Most of the portfolio comprises electricity purchased from domestic and foreign producers and energy brokers; while a smaller portion is used for portfolio optimization purposes and provision of ancillary services, the bulk goes into trading and sales to consumers. The latter refers to the purchases made by GEN-I's trading division, which purchased a total of 37,512 GWh of electricity in 2019.

A special focus is placed on purchasing electricity generated at solar power plants, hydroelectric power plants and high-efficiency combined heat and power (CHP) units. Holding a 40% market share in Slovenia, the Group is the leading buyer of energy from renewable sources. Purchases from these sources totalled 365 GWh of electricity in 2019.

It is precisely the flexibility of purchasing from various producers and the development focus that allow the GEN Group to be able to meet the demands of both large and small consumers through a comprehensive range of broking services for supporting electricity market sales, from intra-day to multi-year trades.

ELECTRICITY PURCHASED BY THE GEN GROUP COMPANIES, BY SOURCE in GWh



Infrastructural capital

The electricity purchase portfolio: own and foreign generation sources (domestic and foreign producers)

Amount of electricity purchases (in GWh)

Advanced (software and IT) infrastructure to meet the customers' expectations

Employees and intellectual capital

Development of comprehensive agency services and flexibility (from one-day to several-year deals)

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3.

4. Electricity trading and sales

In 2019, we stayed on course in electricity trading and sales and sold increasingly large amounts of electricity, including electricity from our own sources, thanks to our in-house knowledge and competences. The GEN Group is a well-organized electricity trader, with cross-border wholesale trading infrastructure that gives us access to all pricing data and information needed to ensure optimal utilization of our production resources. Day-ahead and intra-day electricity trading – in the context of which surplus electricity is sold and electricity shortages offset through purchases in cooperation with GEN Control Centre – is used for maximizing the utilization of production resources and to ensure a safe, reliable and quality supply of electricity to consumers.

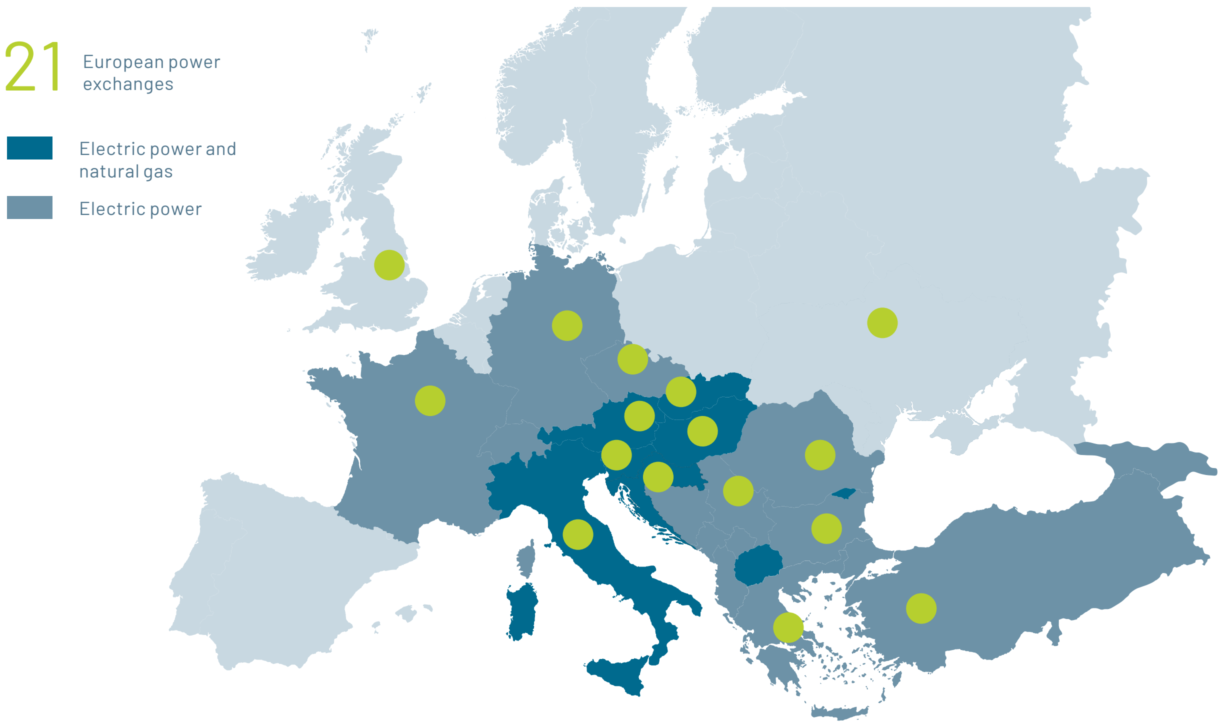
In the area of electricity sales, the link between GEN and GEN-I is crucial – this link has further strengthened with the additional ownership consolidation and signing of a new umbrella agreement. The fundamental characteristic of this link is that GEN-I carries out electricity sales services for GEN following precisely defined criteria. In this context, GEN is primarily responsible for supplying base load electricity, whereas GEN-I delivers the necessary modulation for us to be able to match our service precisely to customers' preferences at the GEN Group level. Most of GEN's annual electricity output is sold based on the company's annual sales strategy approved by GEN's Supervisory Board. To be able to provide exactly the right amounts of electricity on a day-to-day basis as contracted, and to optimize sales, the Group makes short-term purchases of electricity or sells excess electricity as and when applicable.

4.1. Trading

While the 2019 trading volume was lower than the year before, the achieved price was higher, which led to a successful result in this regard.

By entering new markets, we are expanding the economy of scale, and at the same time we have established instruments and obtained all the necessary permits for the overall management of electricity surpluses and deficits resulting from contracts for the purchase of electricity from production sources and the supply of electricity to final customers.

GEOGRAPHICAL PRESENCE OF THE COMPANIES MAKING UP THE GEN GROUP



In addition to day trading (day-ahead and intra-day), which is used for making final corrections and trade optimization, we also employ a number of other dynamic trading mechanisms available in the wholesale electricity market. These include: concluding long- and medium-term material and financial futures contracts to ensure proper portfolio diversification; leasing cross-border transmission capacities; and managing price risks arising from open positions in individual portfolios.

We continually foster new forms of business cooperation that allow us to better manage risks. Buyers can therefore opt to buy electricity at a predetermined fixed price or to accept the risk of price movements, through price indexation, on a predefined power exchange. These market options are also available to sellers in the electricity market. This allows business partners to better adapt to market conditions and to reduce their exposure to market risks.

To be able to utilize international trading mechanisms to the fullest, we use a corporate infrastructure for trading and securing cross-border transmission capacities. The companies making up the GEN Group are therefore fully capable of acting independently in the European electricity markets.

Slovenia is our most important retail market; however, the growing balancing group is being expanded and coordinated through trading activities in the neighbouring markets as well. Our major buyers' and sellers' markets continue to be the markets of Central, Southeast and Western Europe. Expansion into foreign markets is driven by subsidiaries possessing all the required authorizations, competences to adapt to distinctive local circumstances, and suitable trading infrastructure.

4.2. Sales

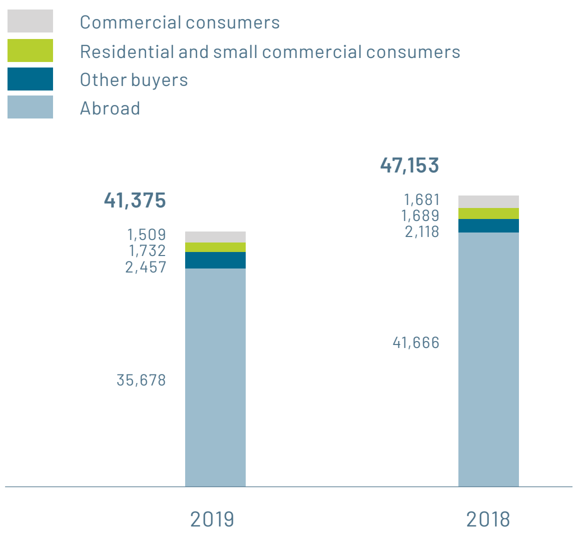
Ever increasing electricity retailing volumes and our entry into the household supply segment testify to ongoing development of our products, which vary in the degree of risk for the buyer and the scope of services offered. Customers include large corporations, as well as small and mid-sized enterprises and households.

With our tried and trusted individual portfolio management based on our own knowledge and infrastructure, we successfully catered for our existing customers and kept practically all of them. This allowed our partners to take the best possible advantage of fluctuations in the electricity market. Also, with highly competitive offerings we managed to maintain sales to consumers at a similar level despite fierce competition in the electricity market.

We continue to be a major player in electricity sales to consumers in Slovenia, and we were also active in supplying electricity to consumers abroad. The key sellers' markets were Hungary, Austria, Germany, Romania and Poland. We make good use of the experience gained for stepping up further development and for identifying new opportunities for retailing in other markets, particularly Southeast Europe.

In 2019, the companies making up the GEN Group significantly increased their volume of sales to other domestic buyers who purchase electricity for satisfying household demand (+16.00%). Sales also slightly increased in the segment of residential and small commercial consumers (+2.55%). In the remaining two segments, however, the sales volume decreased, most notably in foreign markets (–14.37%) and slightly less with large commercial consumers (–10.24%).

ELECTRICITY SALES BY THE GEN GROUP COMPANIES
in GWh



Infrastructural capital

Volume of sales and trading in electricity (in GWh)

Advanced (software and IT) infrastructure for cross-border trading that provides data for optimum exploitation of generation sources

Employees and intellectual capital

Penetrating new markets and increasing economies of scale

Establishing instruments and licences for the comprehensive management of electricity surpluses and deficits

Development of business cooperation forms providing improved risk management

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3.

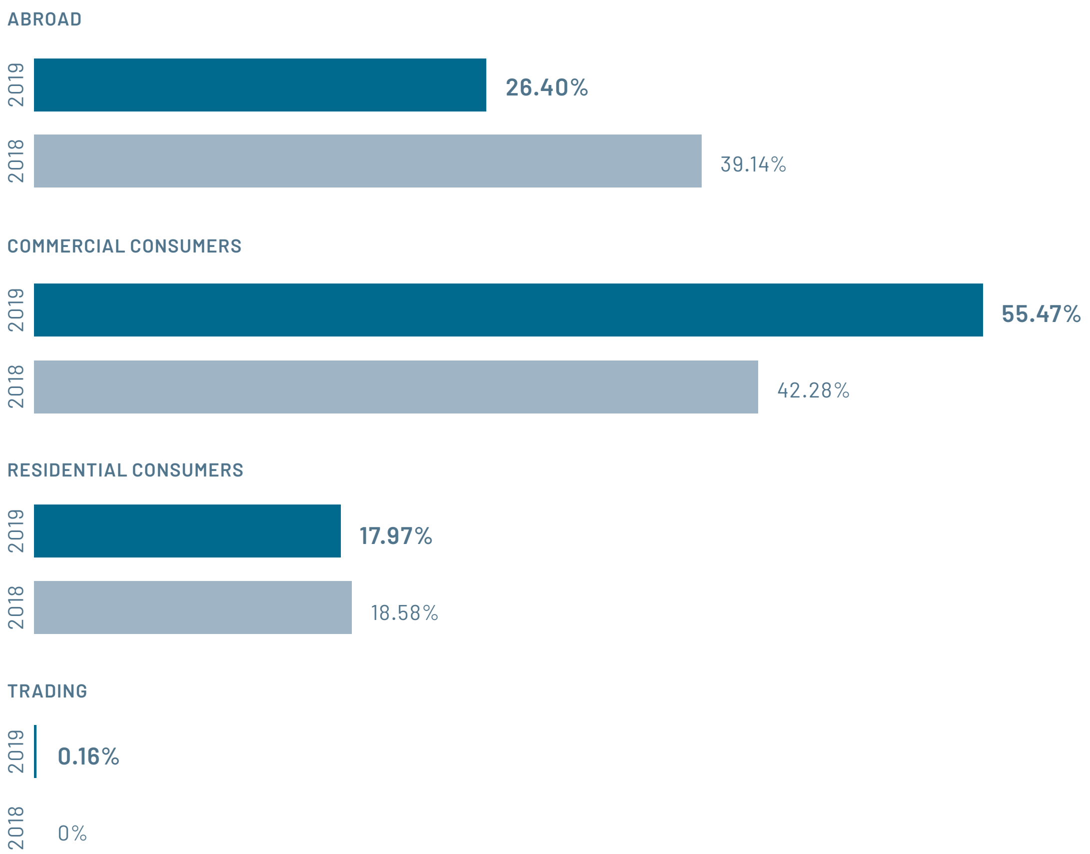
5. Sales of natural gas

The selling of natural gas within the GEN Group is carried out through the subsidiary GEN-I, which – owing to reliable supply and competitive prices – stands firm in its position as the second-largest supplier of natural gas in the country.

GEN-I purchases natural gas on European power exchanges, where prices are dictated not only by fluctuations in oil prices but also supplies currently on offer. This way, the sources we buy natural gas from are diversified among trusted and best-known West European partners. By the end of 2019, we supplied natural gas to slightly more than 25 thousand residential consumers and about 280 commercial consumers, in the total volume of 115.0 million Sm^3.

In 2019, significant growth was recorded in the segment of commercial consumers of natural gas, while the sales of natural gas to residential consumers and abroad decreased. The growth is the result of a stronger sales strategy and the additional opening-up of the natural gas market in Slovenia.

BREAKDOWN OF NATURAL GAS SALES BY THE GEN GROUP COMPANIES



Infrastructural capital

Infrastructure for the purchase of natural gas in European energy exchanges

Amount of purchased natural gas (in GWh)

Employees and intellectual capital

Increase in the number of customers (domestic market – "Poceni plin" brand and foreign market penetration)

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3.

6. R&D, capital expenditures and investments of the GEN Group companies

The area of research and development, capital expenditures and investments is essential to the long-term operating stability and further development of the individual companies and the GEN Group as a whole. The financial resources allocated to this end totalled EUR 91.97 million in 2019. Taking into account the rules of consolidation, the value of investments in the GEN Group stood at EUR 57.38 million.

6.1. R&D, capital expenditures and investments of the parent company

The company GEN spent EUR 901 thousand on research and development and capital expenditures and investments in 2019.

R&D, CAPITAL EXPENDITURES AND INVESTMENTS OF THE COMPANY GEN in EUR thousand

	2019	2018
RESEARCH & DEVELOPMENT	**93**	**139**
Research studies	93	139
CAPITAL EXPENDITURES	**808**	**1,741**
Expansion of Krško Nuclear Power Plant generation capacities	246	1,404
Miscellaneous capital expenditures	562	336
TOTAL	**901**	**1,880**

R&D, CAPITAL EXPENDITURES AND INVESTMENTS OF THE GEN GROUP COMPANIES

EUR 91.97 million

NEK: EUR 69.17 million

- Investments in technological upgrades
- Miscellaneous investments

HESS: EUR 3.96 million

- Brežice HPP
- Mokrice HPP

GEN: EUR 0.90 million

- Expansion of Krško Nuclear Power Plant generation capacities
- Miscellaneous investments

SEL: EUR 3.58 million

- Borovlje SHPP
- Miscellaneous investments

TEB: EUR 8.44 million

- Replacement of gas turbine units
- Miscellaneous investments

GEN-I: EUR 5.92 million

- Servers, information security, equipment, vehicles

Project to expand nuclear generation capacities – JEK 2

The JEK 2 project will make a substantial contribution to the development of a modern, reliable, safe, environmentally friendly and forward-looking nationwide electricity supply at stable and competitive prices. With this in view, the GEN Group advocates a technically well-founded, efficient, transparent and responsible implementation of the JEK 2 project. The project is currently at a stage where the owner, the Republic of Slovenia, will need to take a clear position on the matter. What needs to be made is a strategic decision on the energy future of Slovenia.

STRATEGIC FRAMEWORK: THE ELECTRICITY SUPPLY SITUATION IN SLOVENIA

Slovenia is facing the problem of relatively old energy generation facilities, which are going to have to be eventually replaced with new ones. At the same time, we are growing increasingly aware of the requirements with regard to the use of fossil fuels, their impact on the environment and the resulting need to adhere to the EU climate and energy package, which calls for a gradual reduction in burning coal for electricity generation. All this calls for an examination of the option of expanding the generation capacities of Krško Nuclear Power Plant by building a new unit well before the existing power plant reaches the end of its service life. Installed capacity of the planned second nuclear power plant unit would be about 1,100 MWe, and it could be connected into the grid by around 2030.

REGULATORY FRAMEWORK FOR ENERGY UTILITIES

A pivotal regulatory document governing the energy sector, the Energy Act (EZ-1), was adopted in early 2014. The proposed act refers to the Energy Concept of Slovenia (ECS), a central development document that corresponds to the national energy programme. Taking into account projections of nationwide economic, environmental and social development and the accepted international commitments, the ECS will set out goals for securing a reliable, sustainable and competitive energy supply, presumably for the next 20 years and roughly for 40 years. A public hearing over the Proposed Guidelines for developing the Energy Concept of Slovenia was underway from 2015 to 2017. Presentations of resources for discussing the development of the Energy Concept of Slovenia and presentations of various scenarios and long-term balances were held during that time. A proposal of the Energy Concept of Slovenia was released for public review at the end of 2017. At the beginning of 2018, the ECS proposal was announced to the public along with an environmental report. Then, in March 2018, the government also formulated the proposed text of the Resolution on the Energy Concept of Slovenia. At the beginning of August 2018, the proposal for the Resolution on the Energy Concept of Slovenia was again released for public hearing, after which the process

HOW THE JEK 2 PROJECT MEETS SUSTAINABLE DEVELOPMENT CRITERIA

Social aspect

Long-term reliable and safe generation and supply of electricity by using top-of-the-range, most advanced and safest technology available.

Environmental aspect

Minimal impacts on the environment, mitigation of climate change, optimal utilization of space.

Economic aspect

Stable prices and competitiveness, both for Slovenia's households and economy.

STAGES OF THE JEK 2 PROJECT

STAGE 1: Preparation and strategic decision-making

STAGE 2: Location selection and validation was suspended due to the prioritized adoption of an integrated National Energy and Climate Plan (NECP). At the end of 2018, the Ministry of Infrastructure, in co-operation with the interdepartmental working group, prepared the first draft NECP based on the existing expert bases and the adopted long- and medium-term strategic, action and reporting documents. In 2019, the Ministry of Infrastructure and a consortium of institutions headed by the Energy Efficiency Centre (part of the Jožef Stefan Institute), in cooperation with the interdepartmental working group, conducted numerous public consultations on the preparation of the draft NECP and the environmental report for the NECP. Following the public hearing, the Government of the Republic of Slovenia finally confirmed and adopted the NECP on 27 February 2020. The document states that the decision on the second unit of the nuclear power plant will be made on the basis of economic and other expert analyses by 2027 at the latest.

Strategic bases for the JEK 2 project will also be set in the Strategy for Long-term GHG Emissions Reductions by 2050, which is expected to be adopted in 2020, and in the Energy Concept of Slovenia, which is expected to be adopted in 2021.

PROGRESS MADE ON THE PROJECT

To date, GEN has conducted expert studies in the context of the JEK 2 project that allow a well-founded, broader political and social discourse on the energy future of Slovenia and on the future role of nuclear energy in terms of electricity supply. By doing so, all the bases have been covered to go ahead with the siting procedure and to defend the expansion of the nuclear power option as part of the national strategy for the development of the energy sector.

Activities related to location studies relevant to the JEK 2 project continued in 2019. The Seismic Hazard Analysis (SHA) project was designed in 2014 with the aim of investigating faults in the vicinity of and around the proposed downstream (eastern) and upstream (western) location for the construction of a new nuclear power plant in Krško and performing a probabilistic seismic hazard analysis (PSHA) and deterministic seismic hazard analysis (DSHA). The results of these and previous analyses and surveys, as well as field and laboratory research, performed in both proposed locations show that the subsoil layer in the area is rather homogeneous. During the project, numerous new data were obtained from field research, the seismic catalogue was updated, a fault analysis and soil response analysis were conducted, a seismic wave propagation model was built, and a probabilistic assessment of seismic hazard for JEK 2 was performed on the basis of the existing and newly obtained geological and seismological data. Based on the recommendations of the PRP expert panel, some additional activities are underway regarding the review of geological and seismological characteristics of the proposed locations for the new nuclear power plant unit, which will reduce financial and technical risks as the JEK 2 project continues.

KEY BENEFITS OF THE PLANNED JEK 2 PROJECT

- safe and reliable supply of electricity (8–12 TWh per year, depending on the size of the power plant),
- domestic energy source: reduced reliance on imported electricity,
- competitive energy source: affordable, predictable and stable prices of electricity,
- optimal solution in response to the environmental requirements and standards, reduced CO_2 emissions on the national scale,
- third-generation reactor: improved technology, enhanced safety, higher economic competitiveness,
- reduction of existing and projected quantities of radioactive waste (primarily as a result of improved operational systems and processes of third-generation nuclear power plants, which bring substantial reductions in the amounts of low- and intermediate-level radioactive waste, but also thanks to the possibility of reusing reprocessed fuel – up to 96% of the mass of spent nuclear fuel),
- base-load and load-following operation,
- adherence to the highest international safety requirements and standards,
- possibility of utilizing waste heat (district heating – locally and on a wider scale),
- opportunity for the Slovenian economy to participate in all the development stages (design, construction, equipment manufacturing, outfitting and installation, co-financing),
- positive effects on the nation's economic development and standard of living, highly skilled jobs.

STAGE 3: Investment decision-making

STAGE 4: Construction

STAGE 5: Operation

Besides location studies, we have carried out studies, analyses and activities, among others, for the JEK 2 project in the following key areas in 2019:

- energy security and safety and the role of the power grid, together with JEK 2 as the energy source of the future – one which can be adapted to the most complex and demanding grid-wide adjustments,
- environmental safety and Slovenia's transition to a low-carbon society,
- economic and social security and the role of nuclear energy, together with a revision of the prefeasibility study,
- following the principles of sustainable development in various energy mixes, and
- awareness-raising and keeping the public informed on matters concerning the energy sector.

During the revision of the JEK 2 Prefeasibility Study (PFS), several possible power variants were analyzed (in the range of 1,100–1,600 MWe), and in all the cases the key economic indicators, such as, for example, net present value and internal rate of return, are positive. The JEK 2 project is therefore justifiable and viable also in economic terms – and competitive with all other electricity generation technologies available in Slovenia.

The financial resources spent on the JEK 2 project totalled EUR 246 thousand in 2019.

PARTICIPATION IN OTHER NUCLEAR ENERGY PROJECTS

Providing its services in the context of several European projects, GEN is also active internationally. The first project involves providing support to an operating power plant in Armenia (AOSA), focusing on safety upgrades and operational efficiency. On the AOSA project, a consortium agreement was signed with the company ENCO, under which GEN is the lead partner for five operations. The project started in March 2017 and will take three years to complete. The second project is related to research and development in the field of external risk assessment (NARSIS), in which we participate as part of a wide consortium of 18 partners within the Horizon 2020 research program. The NARSIS project started on 1 September 2017 and will take four years to complete. The third project involves the provision of consultation services for the development of a spent fuel and radioactive waste management strategy in Jordan (JORDAN). The JORDAN project, in which we participate together with the company ENCO, will be completed in 2020. The PIACE project is linked to the development of an innovative heat dissipation system for light-water nuclear reactors based on non-condensing gases and is carried out as part of the Horizon 2020 research program. The project started in June 2019 and will take three years to complete. In January 2019, a service agreement for probabilistic safety analyses was also signed for the nuclear power plant in Brazil (Angra), which is expected to run until the end of 2020. The beginning of 2019 saw the approval of a project run by a consortium of NUCCON and GEN energija for the performance of training programmes within the *Joint Research Centre*, which operates under the auspices of the European Commission, on the subject of operational experience in nuclear power plants. The project will be running until 2022.

In addition, GEN also provides development services in Slovenia. We work with ARAO on reviewing the documentation for the NEK decommissioning programme and the low- and intermediate-level radioactive waste (LILW) repository; we also worked with Brestanica Thermal Power Plant (TEB) on the project to replace gas turbine units 1–3.

GEN is actively involved in the European Utility Requirement (EUR), which brings together all the major European nuclear operators and whose purpose is to define technical requirements, in other words, to develop and harmonize standard requirements for light-water reactors in Europe based on scientific and technological advancements and increasingly stringent safety requirements for new nuclear power plants. A revision of the EUR Requirements e-document was completed in 2017. An inspection of the Russian-design power plant VVER-TOI in accordance with the EUR requirements was completed in 2019. However, the assessment of the Chinese HPR1000 reactor has been started and is expected to take place until the end of 2020.

GEN actively cooperates with the International Atomic Energy Agency (IAEA), the Nuclear Energy Agency within the Organization for Economic Co-operation and Development (OECD NEA), as well as the International Framework for Nuclear Energy Cooperation (IFNEC). Through cooperation, the GEN Group seeks to consolidate its international standing in the efficient use and development of nuclear energy, including international solutions for the disposal or reuse of spent nuclear fuel.

PLANS FOR 2020

In the framework of the JEK 2 project, we will continue in 2020 with the following: important expert analyses related to geological and seismological surveys, expert analyses and bases for obtaining an electricity generation licence, and submission of an application for an electricity generation licence, potential drawing-up of a special law, and updating of the siting schedule. In terms of economic analyses, we will continue with the macroeconomic study as well as other analyses to support the business decision-making process. Part of these activities will be carried out by our own people. We will monitor the preparation of the National Energy and Climate Plan (NECP), Strategy for GHG Emissions Reductions, and the Energy Concept of Slovenia (ECS); we will also actively engage in professional and public discussions. We will continue our work within the associations EUR, IFNEC, OECD NEA and other major professional organizations and carry on with our service projects both in Slovenia and elsewhere around the world.

Development activities of the company ZEL-EN

In the framework of the energy sector development centre ZEL-EN, established with the aim of promoting the development of energy technologies, we carried out in 2019 several research and development projects on individual partners' premises.

ZEL-EN staff also actively engaged in running guided tours of the World of Energy at the company GEN's headquarters and in other activities conducted by the company's public relations office.

Parent company's research and development, capital expenditure and investment plans for 2020

In 2020, we are going to follow the set course in terms of investments and capital expenditures. We will carry on implementing activities started in previous years and activities that could not be carried out previously. The financial resources for this are projected at EUR 35 million.

In 2020, GEN is going to carry on with the activities for implementing the project to expand Krško Nuclear Power Plant's generation capacities. We will also focus on further optimizing the electricity production along the entire HPP chain on the lower course of the Sava. Part of the resources is also intended for subsequent capital contributions, investments in information technology and security upgrades. New equity interests may also be acquired.

6.2. Research and development, investments and capital expenditures in subsidiaries

The companies making up the GEN Group maintain a high level of availability and operational reliability on account of regular maintenance and ongoing capital expenditures. Operational readiness of the systems is ensured through appropriate control, maintenance and modernization operations. There are three distinctive types of maintenance:

- **preventive maintenance**, which is carried out at predetermined intervals based on maintenance schedules,
- **predictive maintenance**, which is used for checking the condition of equipment (diagnostics), and
- **corrective maintenance**, which is specially designed for equipment that is not critical to the operational availability and reliability of production units.

If corrective maintenance work is carried out on key equipment that is included in the preventive maintenance programme, a detailed analysis of the cause is conducted and, if required, the preventive maintenance programme is revised accordingly. In 2019, most maintenance activities were carried out according to maintenance schedules.

NEK

NEK is committed to making ongoing strategic investments in technological modernization and upgrades. The standard procedure is to make five-year investment plans, and the average annual value of investments in technological modernization is around EUR 35 million.

From one year to the next, NEK is increasing its operational efficiency, increasing the stability of the Slovenian and Croatian electric power grids. Such operation of the plant is the result of well-thought-out investments, careful operational control, good cooperation of all its stakeholders and the commitment of all its employees, as well as favourable hydrology and the associated good thermodynamic efficiency of the power plant. The cost price of electricity was competitive in comparison with other sources and even slightly lower than planned.

The complex and demanding major overhaul was carried out to schedule in 28 days. With the support of external contractors, they performed thousands of tasks in order to implement plans in the field of fuel replacement, preventive maintenance and equipment inspections, and carried out ten major upgrades to support the long-term operation of the power plant. The overhaul was the shortest since the power plant has switched to an 18-month fuel cycle operation.

Technological upgrades are successfully carried out to support the long-term operation of the power plant. Another important achievement in 2019 is NEK's repeated ranking in the highest class of operating European nuclear power plants following the completion of an extensive safety inspection carried out by the World Association of Nuclear Operators (WANO).

NEK has already implemented more than 60 percent of the projects from its Safety Upgrade Programme, which in terms of substance means additional safety measures for cases of extreme external events for which the power plant was not originally designed. The programme, which derives from the industry know-how and administrative requirements, is also the condition allowing for the long-term operation of the power plant. During the overhaul, they provided the full functionality of the auxiliary control room as an alternative location for controlling the power plant. According to the plans, the construction of a specially reinforced safety building is underway, in which additional cooling water tanks, additional safety systems for injecting water into the reactor cooling system and both steam generators in case of failure of existing systems will be installed. Part of the third phase is also an important safety upgrade of temporary spent fuel storage. The introduction of dry storage or the gradual transfer of spent fuel elements from the pool to resistant, hermetically sealed containers also represents a transition from active to passive solutions. No additional device, no additional system or energy source is required to provide cooling. They obtain permits for the project in accordance with regulations, the complexity of which adds time and uncertainty to the project.

NEK has successfully completed an external assessment of compliance with the environmental quality standard ISO 14001. The auditors observed a number of good practices and found no inconsistencies. In addition to the measurements – which, as in all previous years, prove that the impact on the environment is far below the limits prescribed by the water permit and environmental protection approval, this is further confirmation of NEK's responsible attitude towards the environment.

In 2019, 62 cubic meters of low- and intermediate-level radioactive waste were stored, as part of the waste generated last year was also stored, when the priority was to move technological equipment from the temporary storage to the new building for handling radioactive cargo and ensure its full functionality. It should be underscored that the amount of this waste is small relative to other hazardous waste and that the nuclear energy industry has in place elaborate strategies for radioactive waste management and high standards that ensure the waste is isolated from the environment and does not affect it. The provision of funds for their final disposal is also regulated by law. Regarding the latter, the decision of the Intergovernmental Commission for Slovenia to continue with the procedures for the construction of a final repository for this waste is a good prospect for the long-term operation; the national spatial plan for the repository was adopted ten years ago.

Global, European and national discussions on tackling the climate crisis surely would be more constructive if there was wider knowledge and understanding. In the current debates, there is no doubt that we need a unification of positions on the energy concept, the highest possible level of consensus and a firm commitment to its implementation. The energy plan should be a reasonable combination of low-carbon footprint sources such as renewables and nuclear energy. With such a mix, we can ensure an affordable price of electricity for all consumers, economic development and an adequate standard of living for the people, as well as an acceptable level of energy self-sufficiency or autonomy.

The gold certificate of credit excellence received in 2019, based on financial statements and other dynamic indicators, is also confirmation of NEK's above-average safe and successful operation.

The value of the investments in NEK made in 2019 totalled EUR 69.17 million.

Investments in technological modernization in 2020 will continue to be driven by administrative requirements and operational experience so as to further improve the operational safety and stability of the power plant. The NEK Supervisory Board adopted key documents for NEK's operations in 2020: Economic Plan for 2020 and Long-term Investment Plan until 2024. The investments will be financed from own resources, as well as through subsequent capital payments and long-term loan. In preparing the audit, they took into account that the Security Upgrade Programme must be implemented by the end of 2021 and that the value of some investments has increased, while some have been delayed. Therefore, in the years ahead, the most technologically necessary upgrades and replacements of equipment will be carried out alongside the projects from this programme, including the reconditioning of the old generator rotor, which will provide an essential backup component.

The resources earmarked for investments in 2020 total EUR 80 million.

SEL

SEL consistently carries out periodic major maintenance on its facilities and makes intense development efforts in terms of tapping hydro energy. In 2019, SEL spent EUR 3.58 million in depreciation allowances and other own resources on capital expenditures and development.

Preparatory works for Borovlje SHPP were completed by the end of January 2019, construction works on the intake facility and sediment basin were also finalized by the end of June, as well as construction works for half of the powerhouse – up to the generator floor. By the end of the year, with the exception of the finishing works, all construction works, all mechanical assembly works and most electrical installation works were completed. At the beginning of 2020, all functional start-up tests will follow.

With the aim of faster, simpler and cheaper emptying of the Javornik sediment retention structure during the construction of the new Borovlje SHPP, the installation of a gate inside the gravel barrier was also envisaged. The gate will be used for releasing the water and thus reducing the water level in the sediment retention structure, and at the same time to flush out the debris from in front of the SHPP's coarse containment grid. All work was completed by the end of September 2019, when the hydromechanical equipment for the main outlet 1 was also tested. The inflow of water to the gate has already been partially cleared, and it will be finally ready during the emptying of the sediment retention structure in 2020.

Also in 2019, SEL successfully completed its multi-year project to recondition Vrhovo HPP's on-site power excitation systems and generating unit control system, during which secondary equipment at SEL facilities was unified, obsolete equipment replaced, and conditions established for reliable remote control and further optimization of the power plant's maintenance costs.

In 2019, the conversion or upgrade of turbine controllers (DTR) for generating units 1 and 2 at Medvode HPP and generating units 1 and 2 at Moste HPP was successfully completed in order to meet the requirements with regard to the response of primary frequency control according to the Instructions on the systemic operation of electricity transmission network (SONPO). With this completed, all SEL's generating units are ready to participate in primary frequency control according to the SONPO requirements from 2016.

The software and in part the hardware at the SEL/GEN Control Centre is also being updated.

In 2020, SEL will continue to invest financial resources in capital expenditures and further development of its existing production facilities and to look for new opportunities in harnessing renewable energy sources for electricity generation. The total sum earmarked for capital expenditures and development will be EUR 9 million.

TEB

In 2019, TEB spent EUR 8.44 million in own resources on capital expenditures and development.

The majority of investments relate to the project of replacing gas turbine units PB1–3, implementation of the first phase 1B, heating system energy retrofit, implementation of minor technological modifications on the existing systems, and modernization of mobile firefighting equipment.

TEB's most important and comprehensive project is the replacement of gas turbine units 1–3. January saw the preparation of documentation for the announcement of a public call for bids for the selection of a contractor for high-voltage equipment LOT2. In February, the public procurement procedure for LOT1 continued, with negotiations with the bidder who submitted an acceptable bid, and for high-voltage equipment LOT2, the documentation related to the public call for bids was posted on the Public Procurement Portal. In March, a contract was signed with the supplier of the main technological equipment LOT1. In April, a contract was signed with the supplier of high-voltage equipment LOT2. In June, contracts were signed for the implementation of expert supervision and comprehensive supervision in the implementation of the project. In early July, work began on the construction site of the second replacement unit PB7. Earthwork for the foundations for the main technological equipment and ducting in the turbine hall was carried out. In September, reinforcement steel was installed on the foundation for the turbine. In October, the pouring of concrete was underway on the foundation for the PB7 turbine. In November, a diesel generator for black-starting PB7 was delivered and a public call for bids for auxiliary technological equipment LOT3 was announced.

TEB's financial resources earmarked for capital expenditures and development in 2020 amount to EUR 15 million.

HESS

HESS is the developer behind the largest hydropower project currently under way in Slovenia: the construction of a chain of five new hydroelectric power plants on the lower course of the river Sava.

In the area of capital expenditures and modifications, HESS completed two major projects in the autumn of 2019. The first project is the replacement of the control system at Boštanj HPP and Arto-Blanca HPP, and the second one is the reconditioning of the hydromechanical equipment at Arto-Blanca HPP, which will increase the reliability and safety of these hydroelectric power plants. Currently underway is the reconditioning of the hydromechanical equipment at Krško HPP.

In the procedure for obtaining a final Environmental Protection Approval for Mokrice HPP, the Administrative Court of the Republic of Slovenia, in an administrative dispute against the Environmental Protection Approval issued in July 2018, ruled in February 2019 that the case be returned to the ARSO administrative body for reconsideration. At the request of ARSO, HESS prepared explanations, which were further supported by additionally obtained opinions from domestic and foreign biology and ichthyology experts. In November, ARSO notified the developer of its finding that the planned operation was not acceptable for the environment and that the conditions for issuing an Environmental Protection Approval were not met. Prior to the issuance of the rejection decision, the developer pointed out to ARSO that such a decision was unsubstantiated and that there were no valid grounds for rejecting the Environmental Protection Approval. The procedure now continues at ARSO.

HESS spent EUR 3.96 million on capital expenditures and development in 2019.

HESS will spend most of its investment potential in 2020 for the preparations for HPP Mokrice. The total value of planned capital expenditures in HESS is EUR 12 million.

GEN-I

GEN-I spent a total of EUR 5.92 million on capital expenditures and development. The majority of funds were allocated to information technology, which is necessary for the smooth operation of trading and sales applications and for other fixed assets that are necessary for the company's operations.

In 2020, most of GEN-I's capital expenditure funds, totalling EUR 7 million, is projected to go into the deployment and upgrade of comprehensive data management systems and into other IT system upgrades.

Financial capital

Investments (overview by companies included in the GEN Group; in € million)

Employees and intellectual capital

Research and development (overview of studies and R&D activities by companies included in the GEN Group)

Social capital

Presentation of regulatory frameworks and challenges of social acceptance in:

- the maintenance of existing, and
- the construction and design of new production capacities (JEK 2 project, ZEL-EN development projects, and an overview by other companies included in the GEN Group).

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3

7. Financial operations

The companies had no problem at all meeting their financial and trade liabilities within applicable contractual terms of payment. Also, our customers were successful in meeting their financial obligations.

While the companies in the GEN Group cover their financing liabilities mostly through depreciation, the company GEN's main source of financing for these liabilities is the profit it generates.

The financial operations of the company and the Group are, alongside obligations of controlled and jointly controlled companies, also strongly impacted by the commitments GEN has entered into upon founding that originate in the Intergovernmental Agreement on NEK. Under this agreement, GEN not only received the right to one-half of the electricity produced by NEK, but also assumed the responsibility to pay back the loans taken out for its construction, to meet its financial obligations to the NEK Fund, and to secure funding to cover NEK's fixed costs in the event of unscheduled outages.

7.1. Servicing operations and borrowing

A key function of financial operations is to plan for a sufficient amount of liquid funds for ensuring solvency, where a major part is played by obligations arising from the supplied electricity and power. A particularly important role is played by the coverage of the fixed costs of NEK, which is one of the main leverages for the timely settlement of the obligations of the GEN and the optimization of the surpluses and deficits among the companies in the GEN Group. Appropriate liquidity was also ensured through consistent recovery of past-due accounts. This applies particularly to GEN-I, but since GEN-I has this aspect thoroughly covered by terms and conditions, no major problems have been encountered to date.

Borrowing activities were focused on securing sufficient funding both for short- and long-term operations. All the companies in the Group take out loans for their own account. The company GEN and the GEN Group companies in which the State holds a controlling management interest are also obligated to undertake borrowing activities in compliance with the Regulation on Borrowing Conditions and Procedures under Article 87 of the Public Finance Act (Official Gazette of the Republic of Slovenia, No. 112/2009).

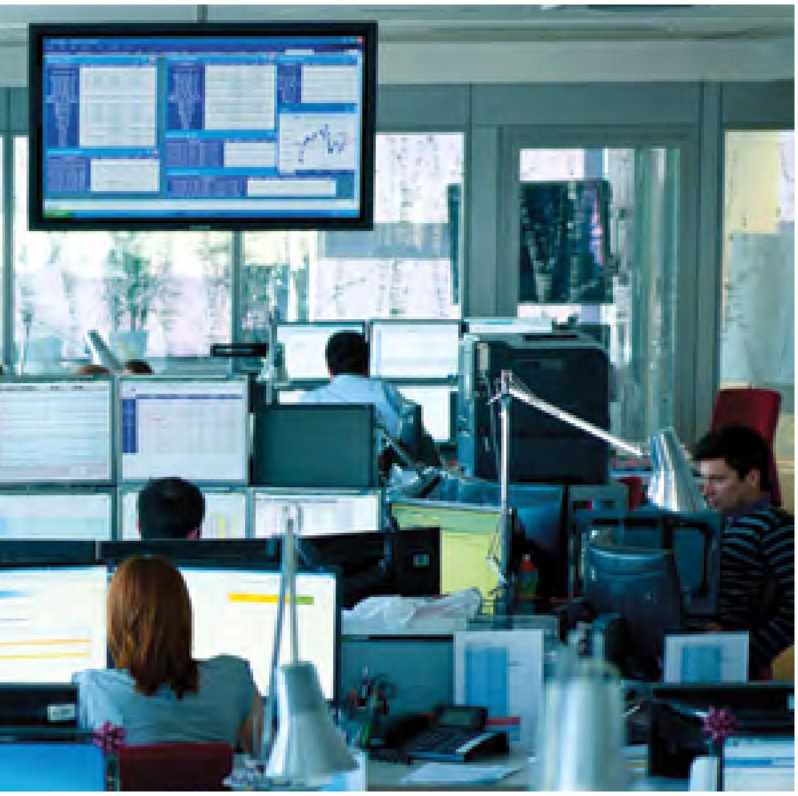
Short-term borrowing is most frequently undertaken by GEN-I to ensure sufficient liquidity for its electricity trading operations – in the past mainly through loans, but in recent years also by issuing commercial papers and bonds, which turned out to be a very effective way of securing funds.

Long-term borrowing is undertaken by our production companies, primarily for the purposes of capital expenditures and major maintenance.

Loans have been secured either by bank guarantees or drafts. The financing liabilities were denominated in EUR.

7.2. Settling liabilities to the NEK Fund

Pursuant to the Intergovernmental Agreement on NEK, the Act on the Fund for Financing the Decommissioning of NEK and Disposal of Radioactive Waste from NEK (Official Gazette of the Republic of Slovenia, No. 75/1994 and amendments thereto), and the Decision of the Government of the Republic of Slovenia No. 311-01/2001-21 of 07/10/2004, the company GEN is obligated to pay, on a regular basis, into the NEK Fund a contribution in the amount of EUR 3 for each MWh of electricity generated by NEK. EUR 8.30 million was paid into the NEK Fund in 2019.



7.3. Securing funding for covering NEK's fixed annual costs

Under the Intergovernmental Agreement on NEK, the company GEN is obligated to cover NEK's fixed costs incurred over a period of one year regardless of whether NEK is in or out of service. Since NEK is the dominating production unit in the GEN Group, whereby the performance and operations of the Group are heavily dependent on its stable operation, the Group is exposed to considerable risks even if only short outages of the power plant occur. To secure the resources for covering NEK's fixed costs, the company GEN decided as early as 2003 to make long-term provisions for one-half of NEK's annual fixed costs (the other half is to be provided by the other co-owner of NEK).

The total amount of planned long-term provisions was finalized by the company GEN as early as the end of 2009, but because NEK's fixed operating costs vary, the amount of provisions needs to be adjusted. To ensure the amount of provisions is adjusted in as balanced and objective way as possible, so as to allow proper estimation of future expenses arising from an onerous contract, as of 1 January 2014 in accordance with SAS, provisions are adjusted based on the three-year average value of the fixed costs as defined in the NEK Economic Plan. Due to unchanged production capacities of NEK, provisions were not drawn in the period under review, but were additionally created in the amount of EUR 6,339 thousand as a result of the adjustment to the increase in NEK's fixed costs. At the end of 2019, provisions totalled EUR 66,737 thousand. The company GEN will continue to follow the strategy of making and adjusting provisions in accordance with NEK Economic Plans.

7.4. Surplus cash investing

The Investment Strategy designed to make up for long-term provisions drawn for covering NEK's fixed costs in the event of unplanned reductions in NEK's electricity production output (hereinafter: Investment Strategy) was updated in 2019 to reflect the changes to the maturity for the placement of resources into deposits from 6 to 12 months. Due to the need for short-term availability of funds, the Investment Strategy does not provide for investments in debt and equity securities and only allows deposits with financial institutions with a maximum maturity of twelve months, as well as appropriate investments in the electric utility sector.

Since banks are not offering suitable returns for maturity periods of up to twelve months, the company GEN keeps a part of its surplus cash in its bank accounts. Banks charge a commission for exceeding bank account balances in the amount of EUR 0–2,000 thousand, which the company GEN managed to work around in 2019 by dispersing its funds.

Financial capital

Data on financial operations:

- servicing operations and borrowing
- settlement of liabilities to the NEK Fund
- provision of funds to cover 1-year fixed costs of NEK
- investing free cash

Social capital

Settlement of trade liabilities

Activities relating to the Intergovernmental Agreement on NEK

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3

8. Employees, knowledge and development of human resources

Our employees' knowledge is at the heart of GEN's pursuit of sustainability focuses throughout our responsible operations.

We make ongoing efforts to provide education and training opportunities to all the employees of the GEN Group companies, as well as to promote their professional and personal growth. In 2019, the Group had 1,418 employees (or 1,104, according to the rules of consolidation). The number of employees is consistent with the Group's growth and development and the underlying challenges.

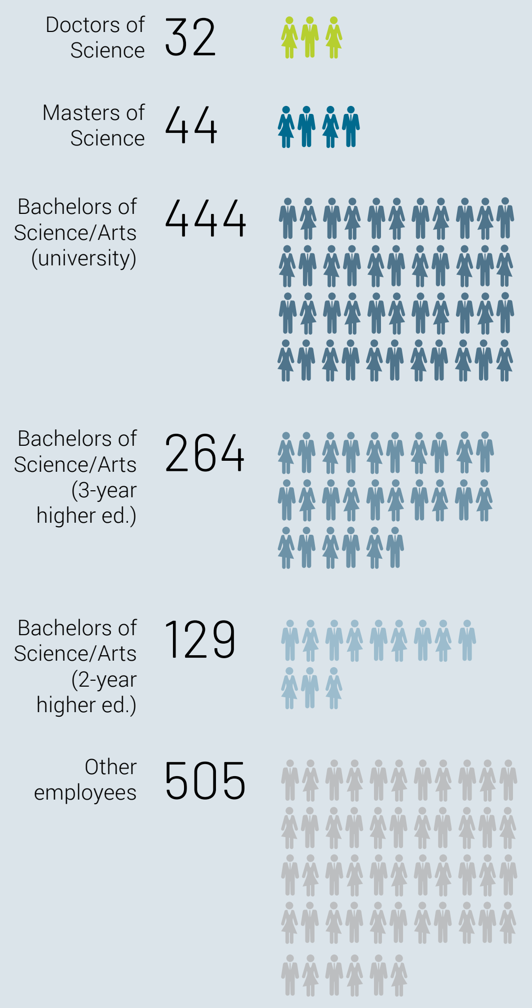
8.1. Number of employees and structure of qualifications

Due to the complexity and scale and scope of work in the companies making up the GEN Group, more than half of the employees have at least a higher education qualification.

A low employee turnover rate goes to show that our employees are highly dedicated and motivated to work in an environment that stimulates and promotes knowledge, responsibility and networking.

The data in the table below refer to the whole companies or the whole group, not taking GEN's equity interests in individual companies and the rules of consolidation into account.

EMPLOYEES BY LEVEL OF PROFESSIONAL QUALIFICATION



NUMBER OF EMPLOYEES BY LEVEL OF PROFESSIONAL QUALIFICATION

The GEN Group	31/12/2019											31/12/2018
	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7	Level 8	Level 9	Level 10	Total	
GEN	0	0	0	0	5	7	7	34	2	5	**60**	57
GEN-I	0	0	0	7	92	18	170	155	20	15	**477**	403
NEK	0	2	1	17	251	71	55	205	16	10	**628**	633
SEL	5	0	0	20	32	12	9	16	4	0	**98**	98
TEB	0	3	0	19	32	17	12	20	0	1	**104**	103
HESS	0	0	0	2	17	4	11	14	2	1	**51**	50
Total	**5**	**5**	**1**	**65**	**429**	**129**	**264**	**444**	**44**	**32**	**1,418**	**1,344**

The companies making up the GEN Group had 32 doctors of science, 44 masters of science and 444 university graduates in 2019. The key professional areas of employees with a 9th or 10th level of professional education (masters and doctorates in sciences) are:

- nuclear engineering and nuclear energy,
- electrical engineering,
- nuclear physics,
- mechanical engineering, and
- economics.

8.2. Professional education and training

The companies making up the GEN Group systematically invest resources in professional education and training for executive and management levels and other key employees across all the areas of operations of our companies.

In areas related to the generation of electricity from nuclear energy, we also run several specialized programmes. These are mostly professional training schemes taking place:

- on NEK's simulator,
- at NEK Maintenance Training Centre, and
- in the framework of the Milan Čopič Nuclear Training Centre (ICJT) at the Jožef Stefan Institute, Ljubljana.

Družini prijazno podjetje

BALANCING FAMILY AND CAREER

The development of employees in the company GEN is driven by creating a stimulating work environment and maintaining a high level of business ethics. The Family-Friendly Enterprise Certificate enables us to increase the satisfaction and commitment among our employees. We have incorporated numerous measures into our work processes that make it easier for employees to balance their private lives and careers.

EVROPSKA UNIJA
EVROPSKI SOCIALNI SKLAD
NALOŽBA V VAŠO PRIHODNOST

SCHOLARSHIPS AND DEVELOPMENT OF HUMAN RESOURCES

We recognize the importance of systematically developing suitable and competent human resources, mostly in the areas of natural and technical sciences. The main reasons for this are twofold:

- the ageing of the existing human resources – employees of the GEN Group companies, and
- the newly identified need to fill highly qualified positions that emerge as a direct consequence of the rapid development and growth of the Group companies.

Scholarships are one of the means of promoting the development of human resources. The companies making up the GEN Group provide company scholarships and also participate in standardized regional scholarship schemes (e.g. the Posavje Scholarship Scheme).

At 31 December 2019, the company GEN had 2 scholarship recipients, the GEN Group, 27.

Scholarship recipients in the GEN Group companies	31/12/2019
GEN	2
GEN-I	7
NEK	18
SEL	-
TEB	-
HESS	-
Total	**27**

However, the number of scholarship recipients in the companies making up the GEN Group has declined in recent years, mostly due to:

- restrictions on recruiting new hires and
- changes in the scholarship policy as a result of the amended Scholarship Act, which places additional administrative and financial obligations on employers.

LONG-TERM STRATEGIC CHALLENGES IN TERMS OF HUMAN RESOURCES

Once made, the decision to expand the nuclear power generation programme (JEK 2 project) will present the GEN Group with a major challenge in terms of human resources. We know full well this challenge will call for a strategic approach to developing and securing new human resources. Analyses have shown that developers of comparable nuclear facilities employ up to 300 people during construction, with the figure ranging between 1,600 and 1,800 if counting in all subcontractors.

KEY PROFESSIONAL EDUCATION AND TRAINING

	Focus of the professional education and training	Specialized education and training in the area of nuclear energy
GEN	• participation in industry conferences, seminars, panel discussions, and meetings at home and abroad • periodic functional education, training and workshops aiming to promote additional knowledge in the areas of IT, project management, leadership, and organization of work processes • 56 hours of training per employee was provided, with each employee attending at least one training course, either in-house or external	• no lengthy training at the ICJT took place last year
NEK	• systematic training based on a checklist of competencies required for independent work and performance of expected work assignments • in-service education and training during first- or second-level studies in energy technologies, mechanical engineering or electrical engineering (37 employees in 2019) • a total of 422 courses organized, drawing in 22,768 attendees; 401 in-house and external courses for NEK were attended by 11,895 employees • courses for external contractors (170 courses, attended by 10,873 participants)	• continuous professional training of operating personnel: a minimum of 160 hours per year for reactor operators and senior reactor operators; a minimum of 80 hours per year for shift engineers; a minimum of 160 hours per year for equipment operators

	Focus of the professional education and training
SEL	• participation in various seminars, conferences and trade fairs (151 employees) • emphasis on periodic training of employees in operation (power plant management), training in OSH, and various proficiency examinations • 779 hours were spent on training, with an average of 7.92 hours per company employee; taking into account the listed trainings, the total average would be 11.75 hours per employee • the training sessions were attended by employees from all levels, and the majority of the training sessions were designed for operating and maintenance personnel.
HESS	• professional education and training according to field of specialization; participation in industry seminars, workshops, conferences, panel discussions and training courses: 1,168 hours of education and training, attended by 40 employees (29.2 hours per employee) employee training in the area of soft skills (business communication and etiquette) • organized several specific training courses in occupational safety and health using work equipment and protective gear for safe handling and work practices • workplace health promotion«
TEB	• in-house and external training in occupational safety and health, fire safety, environmental management systems, accounting and finance, employment, and other fields of knowledge • conducted 28 hours of training/education per employee • implementation of extensive periodic training in explosion protection, handling of hazardous substances, training in OSH and fire safety, refresher courses in process safety, use of hand-held fire extinguishers for putting out initial fires, and evacuation of employees from facilities
GEN-I	• various forms of courses for acquiring new knowledge, competencies and skills in order to further develop the employees' potential • narrow-focus specialized professional training courses • participation in various professional training courses and conferences at home and abroad • transfer of expertise through mentoring, teamwork, internal lectures and workshops to a wider circle of employees • starter training programme for new employees so as to ensure their systematic and effective introduction to the Group's work environment • successfully implemented onboarding for all new employees, which included both e-learning and group meetings with lectures held at various locations of the company's business units

Employees and intellectual capital

Number and educational structure of employees

Professional training

Social capital

HR development and management of long-term strategic HR challenges

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3.

9. Promoting the knowledge of energy and the energy industry

Our mission is to stay a reliable supplier of electricity from sustainable and renewable sources. Our success in accomplishing this mission depends largely on the understanding of our line of work among various external stakeholders. Knowledge and understanding have a strong influence on the perception of the challenges associated with present and future energy supply.

For a whole decade, the GEN Group has been working hard to raise energy awareness and particularly to boost interest in, and strengthen the knowledge of, energy-related topics among our key stakeholders:

- school children and youth,
- local communities,
- electricity consumers,
- professional communities,
- decision-makers at the national and local levels,
- NGOs,
- the media, and other key stakeholders.

The World of Energy and collaboration with schools

From the opening of The World of Energy (in July 2011) to 31 December 2019, this interactive multimedia centre on energy and energy technologies recorded 64,224 visitors, of which 8,143 in 2019 alone.

The aim of The World of Energy centre is to provide comprehensive information and explanations and to showcase interactive exhibits and experiments to bring energy technologies, nuclear energy in particular, closer to visitors and to spark interest in natural and technical sciences among young people. Smaller in scope but still an important part of activities at the World of Energy is the preparation of programmes and workshops, which GEN develops in collaboration with teachers from the schools in the Posavje region, for talented primary and secondary school students.

Awareness-raising projects in 2019

"THE YOUNG IN THE WORLD OF ENERGY" PROJECT

Held since 2008, the nationwide contest "The Young in the World of Energy" is designed for Slovenian primary and secondary schools and school centres. The creativity contest is available as an elective course for schools participating in the Eco-School program. More than 423 creations were submitted to the contest, and the contest involved more than 930 children and youths. The young people presented their views and understanding of electricity, energy and energy sources. Primary and secondary school students and mentors who produced the best projects in the 2018/19 school year according to the panel of experts were presented with awards by GEN energija on 6 June. A new The Young in the World of Energy prize-winning contest was announced at the beginning of the 2019/20 school year.

"YOUNG GENIUSES" QUIZ COMPETITION

In association with NEK, we organized the "Young Geniuses" project, a quiz competition on energy topics, for the seventh year running. In the 2018/19 school year, the contest was designed for 8th- and 9th-graders from the primary schools of the Posavje region. More than 250 students from 23 out of 26 primary schools in the Posavje region took part in the competition. We prepared e-resources for the competition and held a series of preparatory events, which included all mentors and students visiting The World of Energy in Krško, where they saw an interactive exhibition on energy and energy technologies and also gained new knowledge in practical workshops.

With the new school year, 2019/20, we started preparations for the contest designed for 3rd- and 4th-year students enrolled in vocational electrical and mechanical engineering secondary schools, technical grammar schools and the electronic communications technician programme.

Supporting energy industry events and projects

Aside from in-house projects, events and other activities designed to promote the knowledge of energy and the energy industry, the GEN Group companies in 2019 again provided organizational, technical or financial support to various nationwide, industry, business, and educational/awareness-raising events and projects related to the energy industry.

Promoting wider support for nuclear energy is essential to GEN's further development in the field of nuclear energy, which is why we strengthened our participation in various public hearings and energy conferences, where we communicated in a focused manner and presented the JEK 2 project. We took an active part at the following conferences: EnOdmev, Meeting of Energy Managers, Energy Industry and the Environment Forum 19, Three Seas Initiative, DEEP, NeNe 2019, Nuclear Days 2019 in Trieste, and others.

Web portal on energy and the energy industry: eSvet

The web portal on energy and the energy industry eSvet, which we launched in 2014 in cooperation with industry partners (companies making up the GEN Group, the University of Maribor, Jožef Stefan Institute, ELES and ARAO), provides curious online visitors with data-driven facts and figures on energy, its role and areas of application in everyday life, energy sources in use – today, with a special emphasis on electricity generation sources and technologies and the importance of having a reliable electricity supply – now and in the future. The portal registered 83.44% of new visitors and more than 188,438 thousand page views. eSvet was upgraded in 2017 with an online Energy Mix simulation, which allows every individual to try their hand at running Slovenia's power plants. The simulation uses actual data and includes power plant types currently available in Slovenia.

Partnership collaborations, corporate and project presentations

We establish and foster partnerships with organizations and individuals actively engaged in spreading the knowledge of, and raising interest in, natural and technical sciences and energy topics, primarily:

- primary and secondary schools and faculties across the country (especially the Faculty of Electrical Engineering of the University of Ljubljana, Faculty of Electrical Engineering and Computer Science of the University of Maribor, Faculty of Energy Technology of the University of Maribor, etc.),
- science centres (House of Experiments in Ljubljana, e-House in Nova Gorica, etc.),
- other programs and projects promoting sustainable development and energy literacy in Slovenian schools.

We demonstrate our focus on transparency and openness for communication with interested public audiences through numerous presentations of our operations and major projects, most notably JEK 2, at various industry and other events.

Sponsorships and donations

With their energy production facilities and operations, the companies making up the GEN Group are closely coupled to the local environments where they operate. In line with our sense of responsibility, we endeavour to help actively shape the life in local communities, particularly in the areas of education, science, sports, culture, charity, healthcare, environmental protection, humanitarianism, and others. In choosing which area to support, we look into the needs, expectations and interests of the local environment where our companies operate or which their operations impact. In 2019, nearly 53% of all the funding went to the local environments in which our companies operate, and 47% to organizations around Slovenia.

ENERGY AWARENESS RAISING ACTIVITIES

	Topics	Target audience	Results in 2019
GEN	The World of Energy (guided tours, Saturday and summer workshops), projects in 2019: • The World of Energy (guided tours, Saturday and summer workshops), projects in 2019: • The Young in the World of Energy • Technical Wizardry (in association with Krško-Sevnica School Centre) • energy quiz show Young Geniuses (in association with NEK) • five-day energy summer camp for secondary school students co-organized by the Faculty of Energy Technology of the University of Maribor • participation in Ljubljana's Elektrofest and the Science Festival • eSvet web portal • participation in the European Researchers' Night and the project "The Night Has Its Power" • Occupations Camp (in association with Krško Youth Centre) • participation in Krško-Sevnica School Centre's Information Day • participation in the Learning Parade	School children and youth, teachers and professors - mentors, wider professional circles, families, local population	• 8,143 visitors • 5 Saturday workshops for 388 participants • summer camp for 10 secondary school students who produced a working model of a robotic vehicle • more than 930 Slovenian children and youths from more than 50 institutions took part in the Young in the World of Energy competition, producing more than 432 products • events held as part of the European Researchers' Nights and the project "The Night Has Its Power" drew in more than 1,000 visitors at two locations, in Krško and Ljubljana • 23 out of a total of 26 primary schools from the Posavje region entered the Young Geniuses quiz show. More than 250 primary school students took part in the quiz show

	Topics	Target audience	Results in 2019
NEK	Guided tours of NEK Implementation of the Nuclear Engineering Fundamentals module (in association with Krško-Sevnica School Centre) Energy quiz show Young Geniuses (in association with the company GEN) Participation in the Occupations Camp (in association with Krško Youth Centre) and Information Day held at Krško-Sevnica School Centre and the Faculty of Energy Technology Raising awareness among the professional and general public of the technical and environmental aspects of NEK's operation and the energy industry Facilitating mandatory practical work for students (in association with the Faculty of Energy Technology)	Schools, faculties and other interested public audiences, local population, students of Krško-Sevnica School Centre	• 256 groups • 5,427 visitors • regular cooperation with Krško-Sevnica School Centre (implementation of the Nuclear Engineering Fundamentals module, the theoretical and practical parts of which take place at school and at NEK respectively); practical sessions take place on a simulator, in a lecture hall and inside a mobile radiation protection lab
SEL	Guided tours of the existing large and small-scale hydroelectric power plants and the Završnica HPP Technical Museum	Schools, faculties and expert/professional societies Local communities and other local stakeholders	• 1,828 visitors • acquiring new knowledge of hydro energy and the past and present methods for generating electricity at HPPs • promotion of hydroelectric power plants as both a zero-carbon and renewable energy source • promotion of the sustainable harnessing of hydro energy with respect to the (natural) environment and from the perspective of all three components of sustainable development – the economic, social and environmental aspects of hydroelectric power plants
HESS	Guided tours of the HPPs Raising public awareness of the importance of completing the multipurpose project of building a chain of HPPs on the lower course of the Sava, both in terms of energy generation and flood protection Filming a documentary about the construction of the chain of HPPs, whose first public screening took place just days before the Sava River Day, at the end of May 2019 Hosting of the panel discussion "The river Sava in light of climate change" Cooperation at Technical Wizardry (presentation of how hydropower plants operate)	Elementary and secondary schools, students, local communities, professional associations, companies, groups of experts from Slovenia and abroad, representatives of the Slovenian Government, Members of the National Council	• a total of 1,732 visits to HPPs, of which 1,474 to Brežice HPP, 181 to Krško HPP, 47 to Arto-Blanca HPP, and 30 to Boštanj HPP • raising awareness of the importance of RES, particularly hydro energy, in responding to climate change, with an emphasis on the positive effects of multipurpose energy generation projects as shown on an example of good practice – the construction of the HPP chain on the lower course of the Sava

TEB	Guided tours of the power plant Participation in the Youths to Youths project Participation in the Krško-Sevnica School Centre's Information Day Participation in Tehnical Wizardry Doors Open Day for the Slovenian economy	Expert public, local public, 8th and 9th graders at elementary schools, secondary school students	• 663 visitors • Presentation of the topic Energy and the Environment and TEB's role in the national power grid • Presentation of the company and professions sought after by TEB • Presentation of TEB and its role in the national power grid • Introduction to professions, workflow, and employment opportunities in the company
GEN-I	Website – strengthening the visibility and recognizability of the company and its proprietary brands; serving as a primary tool for acquiring new customers Organization of a gathering for large commercial consumers and a meeting with RES and CHP producers	Customers, companies and other audiences	• Product-specific brand websites were set up for electricity consumers: *Poceni elektrika, Poceni plin, Elektroenergija, and Jeftina struja* • The GEN-I Sonce website was launched for potential investors in self-sufficient solar power plants.

Employees and intellectual capital

Content and organizational development of activities to enhance energy literacy and active employee engagement (overview by companies included in the GEN Group)

Social capital

Enhancing knowledge of energy and the energy industry among various target groups, primarily:

- school children and youth,
- local communities,
- electricity customers,
- specialist audiences,
- decision-makers at national and local level,
- non-governmental organisations,
- the media and other key stakeholders.

Support for energy projects and events.

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3

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FINANCIAL REPORT OF THE GEN GROUP

10. Quality policy and safety assurance

GEN's Quality Policy draws from our mission and vision and is aligned with the strategic pillars for the fulfilment of GEN's sustainability focuses, at the heart of which lie safety and knowledge.

10.1. Quality Management System

Our quality management systems applies directly to all employees of the companies making up the GEN Group and indirectly also to contractors and other stakeholders who are required to comply with our management systems in place, our safety culture principles, quality standards and other requirement, as well as business ethics.

For a number of years already, the GEN Group companies have been certified to ISO 14001 (environmental management system), ISO 45001 or OHSAS 18001 (occupational health and safety) and ISO 9001 standards.

In the GEN Group, we place a great emphasis on the rationalization and optimization of operations and we create synergies in all key processes. By making all our employees part of the system and by understanding and using it properly, we continuously improve the company's performance and efficiency in achieving its business goals, quality-specific goals included.

The table highlights some of the key activities in 2019 associated with the implementation, maintenance and development of management systems, and plans for 2020.

10.2. Top priority: continuous safety upgrades

Our safety culture, evident in our unwavering commitment to safety, is at the very heart of all levels of our responsible actions:

- in showing a sense of responsibility towards the local people and the environment in which we operate,
- in ensuring occupational health and safety for our employees, both in production and office settings, and
- achieving operational efficiency of the GEN production facilities and the resulting business excellence.

Nuclear safety is our top priority in the context of the company GEN's mission. The human element is a key factor in nuclear safety, so it is absolutely vital that knowledge and systematic training are broadened and strengthened. The provision of nuclear safety is carried out in all organizations that deal with or are related to the GEN Group's nuclear activities.

The safety of NEK's operation and the preparation of the JEK 2 project is therefore an overarching priority: in the planning and implementing of decision-making activities and work operations. This includes keeping abreast of best practices in the field of nuclear safety on the global scale and of OSART recommendations (IAEA mission, Operational Safety Review Team). A great emphasis is placed on equipment modernization and maintenance and on improving the safety culture and awareness among all employees. Owing to such approaches, NEK ranks in the top 25% of nuclear power plants worldwide in terms of operational safety and stability.

In October, the IAEA completed an expert control review of NEK. The members of the OSART team in charge of reviewing the operational safety of the power plant checked the proper implementation of recommendations in 20 areas, and in all of the areas, they recognized NEK's efforts in carrying out proper implementation and continuous improvements, which are proof of the power plant's high level of operational safety.

The excellence of the work processes at NEK and the recommendations received from WANO are often the reason why NEK is visited by numerous international expert groups seeking to learn about NEK's good practices, follow their lead, and transfer their findings into their own work processes. In 2018, NEK welcomed representatives from Swedish, Spanish, Slovak and Dutch power plants on such visits. This speaks volumes of NEK's high standing in the nuclear industry. That is an acknowledgment of the effort put in, and at the same time, great responsibility on NEK to preserve such a good reputation in the future.

ACTIVITIES IN QUALITY MANAGEMENT, ENVIRONMENTAL MANAGEMENT, AND OCCUPATIONAL HEALTH AND SAFETY SYSTEMS

	Certificate	Implemented activities	Key plans for 2020
NEK	ISO 14001	• In September 2019, an internal audit of the environmental management system was performed according to ISO 14001:2015, followed in December 2019 by a control audit conducted by an external certification organization. • The findings of the internal audit are implemented as part of the analysis in the context of the corrective programme. The external control audit found no instances of non-compliance but made some recommendations for the improvement of the environmental management system.	• Maintenance and improvement of the environmental management system. • Implementation of the findings from the internal audit of the environmental management system and implementation of the recommendations made by the certification organization for improving the system. • Identification of risks and opportunities with regard to environmental management. • Performance of an internal audit of the environmental management system. • Management of identified environmental aspects and identification of any new ones. • Confirmation of the appropriateness and successfulness of the environmental management system during a recertification audit conducted by an external certification organization and obtaining of a new certificate for the next three-year period.
	OHSAS 18001	• Implemented action plan developed based on the analysis of the Report on the Preceding Standard-specific Control Audit from 2018. • Management review carried out of the occupational health and safety management system for 2019. Clear goals and guidelines were laid down by the NEK Management Board. • Internal and external control audit of the occupational health and safety management system at NEK was carried out in accordance with OHSAS 18001. The audit found no instances of non-compliance with the standard. Recommendations were given as an opportunity for achieving excellence of the management system.	• Review and analysis of the Control Audit Report 2019 and implementation of recommendations into NEK's system of operations. • Implementation of the OHS priority "Conducting Work Carefully and Safely" as set out in the document MD-1 Internal Policies and Goals – Five-year Development Plan. • Implementation of WANO actions. • Continued implementation of activities from the previous action plan. • Performance of ongoing tasks by the occupational safety department (TO. VPD), which supports the management system and practical implementation of occupational safety and health measures. • Preparations for introducing a new ISO 45001 standard for the occupational health and safety system, which is to replace the existing OHSAS 18001:2007.
SEL	ISO 9001	• Second control audit carried out (September 2019). The audit found no instances of non-compliance but made two recommendations (or observations – OBS) and two opportunities for improvement (OFI) in connection with the quality management system.	• Recertification is planned for 2020 according to the three-year dynamic (2017 saw the transition to the new edition of ISO9001:2015).

	Certificate	Implemented activities	Key plans for 2020
SEL	Environmental management process (without ISO 14001 certification)		In 2020, despite the discontinuation of certification to ISO 14001 and OHSAS 18001 standards, the company plans to follow their principles or to implement good practice. The process will be included in the recertification of the management system according to ISO 9001:2015.
	The process of ensuring occupational health and safety and fire protection (without OHSAS 18001 or ISO 45001: 2018 certification)	• The process was assessed by Bureau Veritas as part of the second control audit to ISO 9001 (September 2019). • The audit returned no findings with regard to the occupational health and safety and fire protection processes. In the process, we followed the principles of the OHSAS 18001 or ISO 45001:2018 and according to various technical guidelines for fire safety. • The planned activities from the occupational safety and fire protection programmes were carried out. Various theoretical and practical training programmes were carried out. Personal protective equipment was provided to all employees who may be exposed to hazardous factors. In addition, preventive medical examinations were performed, and 12 people joined a medical programme-based active holiday at a health resort.	
TEB	EFQM Business Excellence	• In 2019, TEB participated in a Spirit Slovenia public tender in the category of public sector companies with less than 250 employees and scored more than 400 points, earning the internationally valid EFQM certificate "Recognized for Excellence – 4 stars".	• With regard to the EFQM Certificate of Excellence, we will continue to support and promote continual improvement, progress, and the exchange of good practice and knowledge, as well as increase our competitiveness. At the same time, we will be preparing the bases for achieving an even higher score in our category in the future.
	ISO 9001	• Internal audit of the management system performed. • Management review carried out. • External control audit of the management system conducted.	• Performance of an internal audit of the management system. • Performance of a management review. • Performance of an external control audit of the management system.
	ISO 14001	• Internal audit of the management system performed. • Management review carried out. • External control audit of the management system conducted.	• Performance of an internal audit of the management system. • Performance of a management review. • Performance of an external control audit of the management system.

	Certificate	Implemented activities	Key plans for 2020
TEB	OHSAS 18001	• Internal audit of the management system performed. • Management review carried out. • External control audit of the management system conducted.«	• Performance of an internal audit of the management system. • Performance of a management review. • Performance of an external control audit of the management system with the transition to ISO 45001. • In the fields of occupational health and safety and fire safety, pursuit of goals and implementation of the work plan for the current year.
GEN	ISO 9001	• Internal audit of the management system performed. • Management review performed. • Regular external audit of the management system completed. • Implemented all recommendations given as opportunities for improvement by the certification organization.	• Performance of an internal audit of the management system. • Performance of a management review. • Performance of a regular external audit of the management system. • Examination and implementation of the internal audit findings and the recommendations of the certification organization through the improvement management system.

Infrastructural capital

Security aspects of NEK operations and the preparation of the JEK 2 project:

- keeping track of best experiences in nuclear safety,
- equipment modernisation,
- evaluation of operational safety and work processes (International Atomic Energy Agency, IAEA).

Natural capital

Activities in the environmental management system, as per the ISO 14001 standard

Employees and intellectual capital

Quality management systems and direct inclusion of all employees

Safety culture – at the centre of all levels of responsible conduct:

- nuclear safety as the highest priority,
- maintaining and raising the safety culture and awareness of all employees.

Activities relating to the occupational health and safety system

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3.

11. Risk and opportunity management

Organizations of all types and sizes face internal and external factors and influences that cause uncertainty and draw them away from their goals. The effect of this uncertainty in relation to the goals of the organization manifest as risks that must be adequately controlled and managed. This is especially true for companies operating in the open market. Awareness of this fact leads to the implementation of risk management methods both at the level of the company and at the level of individual organizational units. In addition to risks, we must also recognize the positive effects on business, which are defined as opportunities in accordance with the ISO 9001 standard. With this in mind, it should be noted that the opportunities identified again bring new risks. The goal of the organization is to manage both positive and negative effects on the operations of the organization, or in other words, to manage risks and opportunities, which forms an integral part of governance. The company GEN has been dealing with risks and opportunities on a daily basis since day one. The company is deploying a management system to the ISO 9001 standard and its amendments, under which the company must also meet quality requirements in the fields of risk management and identification of opportunities.

The company GEN addresses all identified risks and opportunities and – factoring in the company's context and requirements – defines them in its adopted **Risk and Opportunity Management Rules**. The risks and opportunities identified by the company are recorded on the list of risks – risk and opportunity register.

The GEN Group classifies risks and opportunities into five categories:

- **strategic risks and opportunities**
- **project risks and opportunities**
- **business risks and opportunities**
- **operational risks and opportunities**
- **financial risks and opportunities**

11.1. Strategic risks and opportunities

Pursuit of sustainable development is an integral part of the business strategy of GEN energija. We have identified three pillars of sustainable development, at the heart of which are knowledge and safety. Within each of these distinct areas, we constantly strive for improvements in order to minimize any negative impacts and to maximize positive effects our operations have on the environment and on society.

The risks and opportunities most relevant to the operations of the company GEN have to do with ensuring safe, reliable and stable electricity production in the subsidiaries, since the survival and development of the company GEN depend on it. Regulatory risks imposed on business entities by the government have been growing recently, e.g. new taxes and tax hikes, broader access to information in the public domain, the Slovenian Nuclear Safety Administration policy, etc.

Krško Nuclear Power Plant (NEK) is the central energy generation facility in the Group and in the country. Because we, as owners of Slovenia's part of the facility, acknowledge the risks and our responsibility around the clock, all year round, we monitor its operation on multiple levels.

We indirectly monitor the operation of the facilities by holding regular coordination meetings with the companies' managements and regular operational meetings of the companies and by appointing competent people to supervisory and management boards of the Group companies and to various task forces.

Corporate governance by the founder

Capital assets management, conducted by the Slovenian Sovereign Holding (hereinafter: the SSH), is an important aspect of strategic risk management. Pursuant to the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 105/2012 and amend.), the SSH is responsible for managing capital assets owned either by the Republic of Slovenia or by the SSH itself. The term capital assets management encompasses securing of investments, disposal of investments and exercising of shareholder or partner rights, as well as all other legal actions compliant with the Companies Act (CA-1). Based on this legal title, the

SSH also manages the Republic of Slovenia's capital asset investment in the company GEN.

The SSH exercises partner rights pursuant to CA-1 and, in doing so, also adheres to other binding documents laying down provisions on good corporate governance practices adopted by itself (particularly the Management Code for Assets Owned by the Republic of Slovenia) or by expert associations (particularly the Management Code for Publicly Traded Companies), while also following binding documents expressing the SSH's positions on some of the aspects of management (particularly the Recommendations of the Manager of Indirect and Direct Capital Asset Investments of the Republic of Slovenia and the yearly SSH guidelines for voting in companies' general meetings).

The SSH carries out its management function as follows:

- by convening regular and special general meetings;
- by appointing and discharging supervisory boards;
- through regular quarterly reports; planning information for the next three years;
- through regular half-yearly meetings with the company's Supervisory Board and/or Management. Such meetings allow for a more direct discussion about pending issues and a quicker way to define the actions needed to resolve potential problems;
- through any feedback to the company from the SSH, where a written document may be provided complete with comments, recommendations and positions regarding future operations and achievement of goals;
- by calling emergency meetings in the event of unforeseen, special events that may impact the company's achievement of goals and its value;
- by taking action in the event that a company is seriously lagging behind its approved business targets;
- if required, the SSH may also employ other ways of gathering information to help it get a better picture of a company's performance (e.g. collaboration with auditors).

The company is actively managed in order to achieve a business result that is in line with performance indicators. Making business operations efficient is what active management is all about – maximizing the profits and curbing the costs across the entire Group. The goal of active management is to increase the company's profitability and to step up the development and reconstruction of its energy infrastructure. The company is required to harness its investment capital potential for carrying out energy projects needed to ensure reliable, safe and stable operation of the national electric power grid. The replenishment and expansion of the subsidiaries' production capacities is monitored through annual and quarterly operating reports and business plans.

Whether the expected profitability will be achieved is largely dependent on the price of electricity in the market, on the basis of which income is generated on the one side, and costs and investments on the other. We ensure the expected profitability through appropriate planning and by keeping to our electricity products sales strategy.

Environmental and sustainability risk

Environmental risks refer primarily to ecological damage that may occur on the natural environment and the GEN Group's facilities. The greatest risks occur in the event of an accident (machine breakdown, collapse of facilities, endangering the safety and health of employees), which results in fire, endangering the safety of the entire facility and its adjacent structures, ecological disaster (oil and lubricant spills, acid spills and emissions of other hazardous substances), increased flow rates or even flood waves. The companies manage this type of risk through preventive and predictive maintenance of their process systems, regular periodic particulate emission/concentration measurements, regular daily checks of their production facilities and wastewater flow measurements.

Given the importance of nuclear power for the operations of the Group and for maintaining greenhouse gas emissions at a low level in Slovenia, the greatest focus is placed on ensuring effective risk management with regard to nuclear safety. Special attention is focused on ensuring and checking adherence with nuclear technology regulations and standards. To this end, it is important to keep abreast of best practices concerning nuclear safety from around the world, coupled with recommendations from WANO and OSART missions, and to follow them during NEK upgrade and modernization operations.

Under its environmental policy, the GEN Group has undertaken to produce electricity in an ecologically sound manner and, in doing so, to follow the Kyoto Protocol directive on reducing greenhouse gas emissions. Among the energy sources that can make this happen is also nuclear energy. And it is the nuclear energy from NEK that is essential to the successful and environmentally friendly operation of the entire Group. Renewable energy sources are an important strategic source of primary energy. Recognizing the importance of renewable energy sources, GEN added to its Group hydroelectric power plants on the river Sava through the acquisition of SEL and through active participation in the construction of hydroelectric power plants on the lower course (HESS) and the middle course (SRESA) of the river Sava. Hydro is the most widely used renewable energy source in Slovenia. With the construction of hydroelectric power plants on the Sava, almost all potential for generating hydropower will be exhausted. In addition to investments in hydroelectric power plants, GEN has installed a solar power plant at the GEN Information Center to promote additional investments in renewable sources. GEN's production portfolio is complemented by Brestanica Thermal Power Plant (TEB), which uses natural gas and extra light fuel oil, the most environmentally acceptable fossil fuels, to generate electricity.

11.2. Project risks and opportunities

Project risks and opportunities are identified and managed separately for each project (e.g. HESS, JEK 2, SRESA).

Investment risks

The operation of NEK is crucial to the current business of the company GEN and to the development of nuclear technology in Slovenia. For this reason, NEK's operation needs to be monitored at all levels. Employee education and training play a vital part in this respect.

Since the JEK 2 project is essential to the national economy, the company has been faced with general risks from the very beginning. The most notable general risks include the political decision whether to go ahead with the project and the inclusion of the project in the national strategic programme on the one hand, and the project's social acceptability on the other.

The company seeks to manage the general risks by presenting appropriate institutions, the Government of the Republic of Slovenia and the social environment with eligibility factors and the national strategic importance of the JEK 2 project, all of which form the basis for making the necessary decisions to move ahead with the construction of JEK 2.

Apart from general risks, the company already identifies risks associated with the JEK 2 project, should the new nuclear build finally materialize. The major risks associated with the JEK 2 project are:

- risk relating to the development of the JEK 2 project,
- risk relating to the completion of the JEK 2 project, the most notable being the risk relating to the financing of the JEK 2 project and recruiting suitable human resources, and
- risk relating to the operation of JEK 2.

If a decision is made to go ahead with the JEK 2 project, the risks in connection with the project will be managed and controlled separately. A Risk Management Manual for the JEK 2 project has already been produced.

Monitoring of and cooperation in the construction of hydroelectric power plants on the river Sava are important risk management elements for the companies GEN and SEL. This will play a particularly important part during the construction of hydroelectric power plants on the middle course of the Sava (SRESA project), which is projected to also engage the cooperation of employees from these two companies.

Investments in gas turbine units are important as these serve as a backup power supply to NEK and potentially to JEK 2 and offer the possibility of serving as a grid-connected standby source, adding flexibility to the production portfolio.

11.3. Business risks and opportunities

Business risks and opportunities are associated with the core business processes of the company GEN's operations.

Market or price risks and opportunities

Market or price risks and opportunities arise from volatile trends in the prices of energy carriers in the global market, which in turn affects electricity prices both at home and abroad.

The company GEN reduces its exposure to market risks and opportunities through an elaborate electricity sales strategy, which remains fixed and unchanging for the most part. To a smaller extent, the strategy is updated, expanded and adjusted each year according to market conditions. Based on the adopted strategy, the company GEN sells most of its projected production output before the start of the year in which it is actually supplied. That way, it significantly limits the price risks, so it is only exposed to the unplanned outages of its production units (particularly NEK) and hydrological conditions that deviate from the projections. Futures contracts and various exchange-traded financial instruments are also used for hedging against fluctuations in electricity prices. At Group level, we are exposed to the price risks and opportunities if there are open positions – a difference (in quantity and value) between the purchase and sale volumes in a given supply period. As the price changes, the portfolio value may decrease or increase as a result. To effectively minimize the price risk, all positions should be closed promptly. With every transaction made, we can generally make a simultaneous countertransaction with suitable characteristics designed to hedge positions against price fluctuations. A counterposition is launched in a market whose price correlates highly with the price in the market of the original transaction. If that cannot be done, we seek to limit the risk of price difference between two markets by purchasing cross-border capacities. The Risk Management Policy defines the maximum open position of an individual portfolio based on the VAR (Value at Risk) method, and in proprietary trading, a portfolio's maximum loss as well.

The risks associated with the sales of electricity for ancillary services have shown in the past to be enormous as the tendering procedure for ancillary services announced by ELES allowed foreign providers to also bid for larger volumes of tertiary frequency control. We managed to effectively mitigate these risks by selling most of these services on a long-term basis.

The risk of the possibility of positive changes in the price of electricity is present if the company does not promptly close open positions. In simple terms: if the company, after selling a particular volume of electricity in advance, does not purchase that same amount on the futures market, it has the possibility of closing electricity prices at lower levels in the part of the position that remains open; and the other way round: if the company has purchased more electricity than needed, it has the possibility of selling it at a price higher than the purchase price, which results in additional positive effects on the company's year-end results.

Electricity price movements present one of the biggest opportunities for the company GEN as it owns production units, which does give it a naturally long position, but it is precisely on account of the stable operation of its production units that it is able to predict with considerable certainty what quantities will be available to it, which the company can turn to its advantage over traditional brokers who merely trade in electricity.

Quantity risks

Quantity risks are risks associated with produced and purchased electricity which arise from the gap between the forecast and the actual amount of electricity. Quantity risks may be internal, relating to technological and logistic limitations with regard to production and timely procurement of energy carriers, or external, mostly having to do with weather and hydrological conditions. The company is exposed to these risks particularly in the event of open-ended contracts.

Risks associated with electricity production refer to the electricity generated by the production companies. In this respect, the prevailing risk is associated with a potential outage of NEK, the most important energy generation facility in terms of volume. We seek to manage this risk by making provisions on the purchase side and by adjusting the production cost for TEB on the sales side, which serves as the marginal price that GEN would have to pay for alternative energy and the reserve kept for this purpose. The risks associated with electricity purchased from other sources refer to the electricity purchased by GEN from sources outside the Group.

Each company manages the internal risks associated with their production facilities based on their many years of experience and expertise, by organizing regular employee training, and by following proven methods of running a production facility, carrying out overhauls, etc. NEK, SEL, TEB and HESS ensure uninterrupted operation of their production units and other electricity generation systems independently by performing regular maintenance work and periodic checks (measurements, mechanical diagnostics).

The GEN Group pays considerable attention to limiting and managing external risks. For this purpose, the Group has put in place proper IT support for long- and short-term forecasting of electricity offtake and feed profiles as well as for daily monitoring of variations in quantity at most of its offtake and feeding points. A key part in this respect is played by GEN Control Centre.

At the GEN Group level, quantity risks are also present in the supply of energy carriers. The Group companies manage these risks by keeping suitable inventories and by carrying out appropriate activities in a timely fashion.

11.4. Operational risks and opportunities

Operational risks and opportunities are present in all business processes. These are risks that could lead to a financial loss for the Group should ineffective business processes and controls be put in place.

We minimize the process risks at the GEN Group level through control systems deployed in each individual company, the core idea behind which is that all important operations must be concluded using the four-eyes principle as a minimum. Operational opportunities, however, bring about innovations in process management. The Group manages these risks and opportunities through clearly defined business processes, clearly defined roles, responsibilities and authorizations, and codes of practice and rules.

IT or telecommunication system failure risks are managed by the companies by setting up redundancy systems for all the key network components and by making sure they are regularly serviced and updated. They come with suitable support and assistance packages which guarantee timely replacement in the event of failure. Redundancy of all important communication channels has also been deployed.

Risks associated with information security have been identified and coordinated activities for their elimination are carried out as part of the analysis of risks and opportunities.

Legal risks

Legal risks refer to losses incurred due to violation or misinterpretation and non-observance of the law, regulations, directives, recommendations, valid agreements and contracts, good practices, or ethical standards. The companies manage these risks primarily by laying down as precisely defined contractual terms and conditions as possible.

Risks arising from vague legal bases or sudden changes in legislation are quite common as well. The company seeks to minimize these risks by keeping abreast of legislative changes and by carefully looking into them before they are made law.

Human resources risks

HR planning involves identifying the company's need for human resources and planning out the activities for their recruitment. For systematic and cost-efficient planning of human resources in the company, this process needs to include all the company's people in lead positions.

By recruiting and developing human resources, the companies are laying the groundwork for future development and bright prospects.

The management of these risks is particularly important for the GEN Group due to the rapid growth and conquest of new markets. In order to fulfill business plans, employees are expected not only to continually expand their existing knowledge and skills and to acquire new knowledge and skills, but also to be effective team players, show a high degree of flexibility, dynamism, motivation, to take initiative, and to have an excellent rapport and communication with each other.

11.5. Financial risks and opportunities

Liquidity risk arises when a company is unable to meet its current obligations because of, for instance, different terms of payment on the purchase and sales sides. In companies, the principle is applied that the payment deadlines for purchases and sales of the same content sets are harmonized or that the payment deadlines for purchases are longer than the payment deadlines for sales. The Group companies manage liquidity risks by laying down well-defined contract terms and conditions, by regularly and precisely planning their cash flows on a daily, monthly and yearly basis, by checking their contractual partners and their payment track records, and through thoughtful and safe placement of surplus cash. At Group level, we additionally minimize the liquidity risk:

- through diversification of financial liabilities,
- through prompt reconciliation of maturities of receivables and payables,
- by limiting our exposure to partners known to be bad payers, and
- through consistent collection of past-due receivables.

To cover for unplanned expenditure, the company has part of its cash tied up in a call deposit or overnight deposit, with which it can cover payment obligations without delay. These funds will also be used if any of the related companies has trouble securing liquidity funds in the market.

The companies are also exposed to risks associated with surplus cash management. Given the situation in the financial markets, we also recognize the risk of incurring financial loss due to low, even negative bank-offered interest rates with respect to surplus cash investments. To manage these risks, the company GEN adopted an Investment Strategy, which serves as the basis for more effective investment risk management.

Credit risk is risk that arises when a business partner fails to fulfill – by due date – their material (agreed supply/delivery of a certain amount of electricity) or financial obligations (non-payment of contractual obligations, repayment of loans to others – deposits). Such non-fulfilment impacts the ability of the companies to fulfill its other obligations to its contractual partners.

The companies manage credit risks by thoroughly checking the credit ratings and liquidity positions of their existing and prospective business partners and banks, by having a clearly defined debt collection procedure and collection letter system in place, and by signing properly secured contracts (by drafts, bank guarantees).

The gravity of the identified risk depends mostly on the partner's business results, particularly level of debt, short-term liquidity, solvency indicators, and profitability indicators. We place a strong emphasis on obtaining up-to-date information from the market, since various market and regulatory changes may cause a partner's standing to quickly falter.

Interest rate risk is a financial risk businesses are exposed to in varying degrees when acting as borrowers or lenders. Interest rate risk means the possibility of losing revenue or increasing expenses due to unfavourable movements in market interest rates. Unfavourable movements can be both a rise or a reduction in the interest rate. If a business needs money to go through with a specific project, a rise in the interest rate is an unwelcome change. A fall in the interest rate, however, may also represent a negative change if a business lends out its surplus cash in the market. In the context of investing, interest rate risk means that the value of an investment might decrease due to changes in commercial interest rates.

To understand the interest rate risk, the understanding of the money market and its functioning is crucial. Interest rates are constantly changing in the money markets as a result of supply and demand for money and other macroeconomic factors (e.g. inflation and overheating of the economy). The interest rate is essentially the price of money, which, like the price of any other commodity, is influenced by the supply-demand relationship and responds to change in exactly the same way as any other price.

Interest rate risk, from the perspective of both the lender and the borrower, is most often controlled through the use of various financial instruments aimed at reducing negative effects when changing market interest rates. As a rule, the extent of exposure to interest rate risk depends on the size of the share of financial liabilities and financial investments in a company - a higher proportion also means higher exposure.

Currency risk is present in electricity trading and cross-border transmission capacity trading operations. The subsidiaries' capital and loans are also exposed to currency risk. Currency risk exposure is present in international trades or in conducting transactions with countries with an official currency other than the euro. This primarily entails exposure to exchange rate differences that occur between the time the contract is signed and the moment the contractual sum is actually paid.

The management of strategic, market, quantity, financial, HR, legal, operational, investment, and project risks is closely related to all five capital assets from which GEN Group creates value for its stakeholders in the short, medium, and long term.

A comprehensive overview of links between capitals and financial and non-financial information on the operations of the GEN Group in 2019 (Business Report) is provided in chapter V.3.

III FINANCIAL REPORT OF THE COMPANY GEN

1. Independent auditor's report

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Owner of Company GEN energija d.o.o.

Opinion

We have audited the financial statements of GEN energija d.o.o. (hereinafter the Company), which comprise the balance sheet as at 31 December 2019, the income statement, the statement of other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company GEN energija d.o.o. as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with the provisions of the Treaty between the Government of the Republic of Slovenia and the Government of the Republic of Croatia on the regulation of status and other legal relationships related to investing in the Krško nuclear power plant, its exploitation and decommissioning (hereinafter the Interstate Treaty) and Slovenian Accounting Standards in parts that are not explicitly regulated by the Interstate Treaty.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. Management is responsible for the other information

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Interstate Treaty and Slovenian Accounting Standards in parts that are not explicitly regulated by the Interstate Treaty. and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Building a better working world

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee oversees the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control.

Ljubljana, 6 May 2020

Sanja Košir Nikašinović
Director, Certified Auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Mateja Repušič
Certified Auditor

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

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2. Statement on the responsibilities of the Management

The Management is responsible for producing an annual report of the company GEN so as to provide a true and accurate account of the company's financial position and operating results for the financial year that started on 1 January 2019 and ended on 31 December 2019.

The Management hereby confirms that appropriate accounting policies were consistently followed and that accounting estimates were made in accordance with the principles of prudence and sound management. The Management also confirms that the financial statements with accompanying notes were prepared under the going concern assumption and in compliance with the Intergovernmental Agreement on NEK and the Slovenian Accounting Standards in sections not covered by the Intergovernmental Agreement on NEK.

The Management is responsible for ensuring proper accounting practices, taking suitable property protection measures, and preventing and identifying fraud and other irregularities or violations.

Tax authorities may review the company's operations at any time for up to five years after the end of the year in which taxes were assessed, which might result in additional tax liabilities, late-payment fees and penalties associated with corporate income tax, or other taxes and charges. The Management has no knowledge of any circumstances that might cause a major liability to be imposed on the company in this respect.

The financial statements of the company GEN for the financial year ended on 31 December 2019 were approved by the Management on 5 May 2020.

Vrbina, 5 May 2020

Martin Novšak
General Director, GEN energija d.o.o.

Danijel Levičar
Business Director, GEN energija d.o.o.

3. Introductory notes on the preparation of financial statements

The company is required to compile individual financial statements for the company GEN in compliance with the Slovenian Accounting Standards (SAS) 2016.

The financial statements with notes were audited by Ernst & Young d.o.o., Dunajska cesta 111, Ljubljana, which also produced the independent auditor's report as included in the introductory section of the financial report.

4. Financial statements

4.1. Balance sheet

Balance sheet – assets, in EUR	Notes	31/12/2019	31/12/2018
ASSETS		**589,638,711**	**561,878,547**
Long-term assets		**493,918,365**	**493,520,562**
Intangible assets, long-term deferred expenses and accrued revenue	**7.1.**	**475,349**	**162,140**
Intangible assets		455,394	135,995
Long-term property rights		114,319	124,335
Other intangible assets		341,075	11,660
Long-term deferred expenses and accrued revenue		19,955	26,145
Tangible fixed assets	**7.2.**	**18,799,055**	**19,331,191**
Land and buildings		5,888,619	6,573,325
Land		485,788	528,904
Buildings		5,402,831	6,044,421
Other plant and equipment, small tools and other TFA		592,389	702,913
Tangible fixed assets in production		12,318,047	12,054,953
Long-term financial investments	**7.3.**	**468,232,467**	**468,232,467**
Long-term financial investments other than loans		468,232,467	468,232,467
Shares and interests in Group companies		291,325,953	291,325,953
Shares and interests in affiliated companies and joint operation		176,782,413	176,782,413
Other stocks and shares and other LFI		124,101	124,101
Deferred tax assets	**7.4.**	**6,411,494**	**5,794,764**
Current assets		**95,509,800**	**68,271,307**
Short-term financial investments	**7.5.**	**57,815,442**	**33,206,560**
Short-term financial investments other than loans		195,164	195,164
Other shares and interests		195,164	195,164
Short-term loans		57,620,278	33,011,396
Short-term loans to others		57,620,278	33,011,396
Short-term operating receivables	**7.6.**	**26,994,109**	**23,188,050**
Short-term operating receivables due from Group companies		19,799,344	16,349,744
Short-term operating trade receivables		3,061,370	4,279,227
Short-term operating receivables from others		4,133,395	2,559,079
Cash	**7.7.**	**10,700,249**	**11,876,697**
Short-term deferred expenses and accrued revenue	**7.8.**	**210,546**	**86,678**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.2. Balance sheet – continued

Balance sheet – liabilities, in EUR	Notes	31/12/2019	31/12/2018
LIABILITIES		**589,638,711**	**561,878,547**
Equity	**7.10.**	**486,730,678**	**466,408,213**
Called-up capital		**250,000,000**	**250,000,000**
Share capital		250,000,000	250,000,000
Capital reserves		**131,756,895**	**131,756,895**
Revenue reserves		**86,362,960**	**68,418,953**
Legal reserves		2,605,980	2,605,980
Other revenue reserves		83,756,980	65,812,973
Fair value reserves		**-80,810**	**-20,009**
Retained net profit or loss		**5,000,000**	**4,000,000**
Net profit or loss for the financial year		**13,691,633**	**12,252,374**
Provisions, long-term accrued expenses and deferred revenue		**67,486,084**	**61,353,565**
Provisions, long-term accrued expenses and deferred revenue	**7.12.**	**67,486,084**	**61,353,565**
Provisions for severance and jubilee payments		748,744	595,343
Other provisions		66,736,833	60,398,333
Long-term accrued expenses and deferred revenue		507	359,889
Long-term liabilities		**252,804**	**12,957,293**
Long-term financial liabilities	**7.13.**	**0**	**12,954,853**
Long-term financial liabilities to Group companies		0	1,183,564
Other long-term financial liabilities		0	11,771,289
Long-term operating liabilities		**252,356**	**1,992**
Long-term operating liabilities from advances		203,931	0
Other long-term operating liabilities		48,425	1,992
Deferred tax liabilities		**448**	**448**
Short-term liabilities		**34,394,999**	**20,998,329**
Short-term financial liabilities	**7.13.**	**13,069,452**	**120,230**
Short-term financial liabilities to Group companies		1,183,564	0
Other short-term financial liabilities		11,885,888	120,230
Short-term operating liabilities	**7.14.**	**21,325,547**	**20,878,099**
Short-term operating liabilities to Group companies		7,958,348	7,461,323
Short-term operating liabilities to suppliers		8,964,438	9,293,293
– domestic		8,964,438	9,290,129
– foreign		0	3,164
Other current operating liabilities		4,402,761	4,123,483
Short-term accrued expenses and deferred revenue	**7.15.**	**774,146**	**161,147**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.3. Profit and loss account

Profit and loss account, in EUR	Note	2019	2018
Net sales	**7.17.**	**206,131,016**	**200,603,278**
Domestic sales		205,919,122	200,315,972
EU sales		211,894	287,306
Other operating revenue	**7.17.**	**27,482**	**676,134**
Total operating revenue		**206,158,498**	**201,279,412**
Total operating expenses		**175,107,156**	**173,690,275**
Costs of goods, materials and services	**7.20.**	**155,018,415**	**160,845,117**
Original cost of goods and material sold		153,010,484	158,754,350
Cost of materials used		155,632	144,017
Costs of services		1,852,299	1,946,750
Labour costs	**7.20.**	**4,053,530**	**3,723,463**
Payroll costs		3,104,351	2,807,508
Social security costs		617,861	567,746
Other labour costs		331,318	348,209
Write-downs	**7.20.**	**855,334**	**736,664**
Depreciation of IA and TFA		692,188	736,664
Operating expenses for the revaluation of IA and TFA		163,146	0
Other operating expenses	**7.20.**	**15,179,877**	**8,385,031**
Operating revenue		**31,051,342**	**27,589,137**
Financial revenue from shares and interests	**7.18.**	**2,511,791**	**2,486,791**
Financial revenue from interests in Group companies		2,500,000	2,475,000
Financial revenue interests in other companies		11,791	11,791
Financial revenue from loans granted	**7.18.**	**55,675**	**35,824**
Financial revenue from loans to others		55,675	35,824
Financial revenue from operating receivables		**349**	**22**
Financial revenue from operating receivables from others		349	22
Financial expenses for financial liabilities		**263,869**	**371,519**
Financial expenses for other financial liabilities		263,869	371,519
Financial expenses for operating liabilities		**9,940**	**5,557**
Financial expenses for other operating liabilities		9,940	5,557
Other revenue		**5**	**12,934**
Other expenses		**115,848**	**115,852**
Total profit or loss		**33,229,505**	**29,631,780**
Corporate income tax	**7.22.**	**5,846,239**	**5,127,032**
Corporate income tax		6,456,587	5,083,867
Deferred tax		-610,348	43,165
Net profit or loss for the period		**27,383,266**	**24,504,748**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.4. Statement of other comprehensive income

Statement of other comprehensive income, in EUR	2019	2018
Net profit or loss for the period	**27,383,266**	**24,504,748**
Changes in reserves from valuation at fair value	-60,800	-262
Total comprehensive income for the period	**27,322,466**	**24,504,486**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.5. Cash flow statement – version II

Cash flow statement (version II), in EUR	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit and loss account items	**31,603,507**	**23,768,571**
Operating revenues (except revaluation) and financial income from operating receivables	206,158,852	201,291,627
Operating expenses without depreciation (except for revaluation) and financial expenses from operating liabilities	-167,981,426	-172,885,110
Corporate income tax and other tax not included in operating expenses	-6,573,919	-4,637,946
Changes in net current assets under balance sheet operating items	**-3,060,748**	**7,013,635**
Opening less closing operating receivables	-3,806,059	9,350,456
Opening less closing accrued revenue and deferred costs	-117,678	-40,745
Closing less opening operating debts	605,456	-1,723,536
Closing less opening accrued expenses and deferred revenue, and provisions	257,533	-572,540
Positive or negative net cash flow from operating activities	**28,542,759**	**30,782,206**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**63,823,881**	**39,514,154**
Cash receipts from interest and shares in profits of others related to investing activities	2,558,584	2,513,413
Receipts from disposal of tangible fixed assets	165,297	741
Receipts from disposal of financial investments	61,100,000	37,000,000
Expenditure for investing activities	**-86,543,088**	**-58,980,209**
Expenditure for acquisition of intangible assets	-414,566	-66,969
Expenditure for acquisition of tangible fixed assets	-428,522	-1,911,166
Expenditure for acquisition of financial investments	-85,700,000	-57,002,074
Positive or negative net cash flow from investing activities	**-22,719,207**	**-19,466,055**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from financing activities	**238,500**	**238,500**
Receipts from increase in financial liabilities	238,500	238,500
Expenditure for financing activities	**-7,238,500**	**-6,238,500**
Expenditure for paid interest associated with financing activities	-238,500	-238,500
Expenditure for paid-out dividends and other shares in profits	-7,000,000	-6,000,000
Positive or negative net cash flow from financing activities	**-7,000,000**	**-6,000,000**
Closing balance	**10,700,249**	**11,876,697**
Net cash flow for the period	**-1,176,448**	**5,316,151**
Opening balance	**11,876,697**	**6,560,546**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.6. Statement of changes in equity

Statement of changes in equity for 2019, in EUR	Share capital	Capital reserves	Legal reserves
As at 01/01/2019	**250,000,000**	**131,756,895**	**2,605,980**
Changes in equity – transactions with owners	**0**	**0**	**0**
Paid-out dividends	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Input of net profit or loss for the reporting period	0	0	0
Changes in reserves due to the valuation of investments at fair value	0	0	0
Changes in equity	**0**	**0**	**0**
Other changes in equity	0	0	0
As at 31/12/2019	**250,000,000**	**131,756,895**	**2,605,980**

Statement of changes in equity for 2018, in EUR	Share capital	Capital reserves	Legal reserves
As at 01/01/2018	**250,000,000**	**131,756,895**	**2,605,980**
Changes in equity – transactions with owners	**0**	**0**	**0**
Paid-out dividends	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Input of net profit or loss for the reporting period	0	0	0
Changes in reserves due to the valuation of investments at fair value	0	0	0
Changes in equity	**0**	**0**	**0**
Other changes in equity	0	0	0
As at 31/12/2018	**250,000,000**	**131,756,895**	**2,605,980**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

Other revenue reserves	Reserves from valuation at fair value	Retained net profit or loss	Net profit or loss	Total
65,812,973	**-20,009**	**16,252,374**	**0**	**466,408,213**
0	**0**	**-7,000,000**	**0**	**-7,000,000**
0	0	-7,000,000	0	**-7,000,000**
0	**-60,801**	**0**	**27,383,266**	**27,322,465**
0	0	0	27,383,266	**27,383,266**
0	-60,801	0	0	**-60,801**
17,944,007	**0**	**-4,252,374**	**-13,691,633**	**0**
17,944,007	0	-4,252,374	-13,691,633	**0**
83,756,980	**-80,810**	**5,000,000**	**13,691,633**	**486,730,678**

Other revenue reserves	Reserves from valuation at fair value	Retained net profit or loss	Net profit or loss	Total
49,791,136	**-19,747**	**13,769,463**	**0**	**447,903,727**
0	**0**	**-6,000,000**	**0**	**-6,000,000**
0	0	-6,000,000	0	**-6,000,000**
0	**-262**	**0**	**24,504,748**	**24,504,486**
0	0	0	24,504,748	**24,504,748**
0	-262	0	0	**-262**
16,021,837	**0**	**-3,769,463**	**-12,252,374**	**0**
16,021,837	0	-3,769,463	-12,252,374	**0**
65,812,973	**-20,009**	**4,000,000**	**12,252,374**	**466,408,213**

5. Basis for drawing up the financial report of the company GEN

The form and substance of the financial report as an integral part of the Annual Report are laid down by the Companies Act (CA-1). The financial report includes a balance sheet, profit and loss account, statement of other comprehensive income, cash flow statement and statement of changes in equity, along with mandatory notes enclosed to the statements. The basic accounting rules applied to these financial statements are based on the Slovenian Accounting Standards (SAS) and were laid down in an internal document by the company; for areas not defined in this document, suitable processing methods are laid down through Management resolutions. The company's financial statements have been prepared in accordance with the provisions of the Intergovernmental Agreement on NEK and Slovenian Accounting Standards in sections not explicitly governed by the Intergovernmental Agreement NEK. The company discloses significant financial statement items in accordance with relevancy-related provisions of the Accounting Rules of the company GEN.

5.1. Basic accounting assumptions and general valuation rules

In processing transactions for the preparation of financial statements, the company follows the following basic assumptions:

- accrual basis,
- going concern, and

qualitative characteristics of financial statements:

- clarity: financial statements are clear if easily understood by users who are proficient in business and economic matters and accounting and who review the information provided thoroughly enough, and if the accounts and their postings can be properly and correctly read and interpreted,
- relevance: information is relevant if it helps users in their business decision-making. Information is significant when its omission or misstatement may impact a business decision made by a user and when it is based on financial statements,
- reliability: information is reliable when it contains no significant errors and subjective positions and when the accounts and their postings are complete and reliable. Information must be complete in terms of significance. Reliability also requires following the principle of substance over form,
- comparability: comparability of items is ensured by systematically applying standardized approaches in the financial statements of the company having the same legal and organizational form over multiple years and by ensuring comparability of items in financial statements of different companies.

5.2. Reporting currency

The financial statements are presented in EUR without cents. They are prepared on a historical (original) cost basis. Transactions denominated in a foreign currency are converted to EUR based on the ECB exchange rate effective on the transaction date. At balance sheet date, assets and liabilities denominated in a foreign currency are converted to EUR based on the ECB exchange rate effective on that date. Positive or negative exchange rate differences arising from such transactions are recognized in the profit and loss account. Due to the rounding of amounts, minor but insignificant discrepancies may be observed in the sums presented in the spreadsheets.

6. Accounting policies

6.1. Intangible assets

Intangible assets are non-monetary assets which are generally physically non-existent but allow the company to perform its registered activities.

The company uses the historical cost model for measuring intangible assets, meaning such assets are recognized at their historical cost. Depreciation adjustments and accumulated impairment losses are subsequently deducted from the historical cost.

Historical cost of an intangible asset includes all costs directly attributable to the preparation of an asset for its intended use, including borrowing costs until the generation of an intangible asset if its generation takes more than one year to complete.

If the company is a lessee, it may recognize at the commencement date of the lease an intangible asset which represents the right of use and an obligation arising from such lease if the criteria for such recognition are met in accordance with SAS 2. The company decided not to recognize the right to use intangible fixed assets and liabilities under SAS 2.

Subsequent costs/expenses incurred in connection with intangible assets are recognized in the respective asset's bookkeeping records and are only added to its historical cost if they increase the asset's future benefits compared to those originally estimated.

Depreciation of intangible assets is accounted for using the straight line method, taking into account the predefined useful life of each individual intangible asset. Their depreciation begins on the first day of the month following the month in which the intangible asset with a finite useful life becomes available for use.

On the balance sheet, intangible assets are recorded at book value, i.e. the difference between the historical cost and accumulated depreciation.

6.2. Tangible fixed assets

Tangible fixed assets (property, plant and equipment) are permanent assets owned by the company and used for the performance of registered activities. They are recorded at their historical cost upon initial recognition.

Historical cost of a tangible fixed asset includes the purchase price and all costs directly attributable to the preparation of the asset for its intended use.

If the company is a lessee, it may recognize at the commencement date of the lease a tangible fixed asset which represents the right of use and an obligation arising from such lease if the criteria for such recognition are met in accordance with SAS 1. For the initial accounting measurement of the right to use an intangible asset and the obligation arising from such lease with the lessee, SAS 1.27 is taken into account.

The company uses the historical cost model for measuring tangible fixed assets, meaning such assets are recognized at their historical cost, from which depreciation adjustments and accumulated impairment losses are subsequently deducted.

Depreciation of tangible fixed assets is accounted for using the straight line method, taking into account the predefined useful life of each individual tangible fixed asset. Their depreciation begins on the first day of the month following the month in which the tangible fixed asset with a finite useful life becomes available for use.

Depreciation class	% in 2019
business premises	3.00
office equipment	10.00–20.00
computer equipment	33.33
intangible assets	33.33
tools and machinery	11.00–33.33
cars	12.50
trade show equipment	14.28–33.33
solar power plant	10.00
other capital expenditures	10.00
parts of buildings under construction	6.00
optical cable connections	3.33

The existing depreciation rates have not changed in 2019.

On the balance sheet, tangible fixed assets are recorded at book value, i.e. the difference between the historical cost and any accumulated depreciation.

Subsequent costs/expenses incurred in connection with tangible fixed assets are recognized in the respective asset's bookkeeping records and are only added to its historical cost if they increase the asset's future benefits compared to those originally estimated.

Upon disposal of a fixed tangible asset, its recognition in bookkeeping records is reversed, and the difference between the net gain on disposal and the book value of the disposed fixed asset is carried over to revaluation operating revenue or expenses.

Assets are recognized if they are likely to increase the company's future economic benefits and if they carry a price or value that can be reliably measured. If the level of probability is high enough for a certain item to increase the company's economic benefits after the end of a given accounting period, such items are treated as assets.

If the company is a lessee, short-term leases and leases in respect of which the asset is subject to a small lease are not recognized as an asset but recognize leases associated with those leases as an expense on a straight-line basis over the term of the lease. A short-term lease is a lease with a lease term of up to 1 year. A small value lease is a lease with a value of up to EUR 10,000, taking into account the value of the new asset that is the subject of the lease.

6.3. Description of the transition to the amended SAS 1 and 2 with regard to leases

When transitioning to the application of the amended SAS 1 and SAS 2, in the part relating to leases, the company would decide to use the simplified option with the date of initial application on 1 January 2019. Under this method, the company could recognize the cumulative effect of the initial application of the changed lease area as an adjustment to the right of use, the lease obligation and the opening balance of the retained earnings at the date of initial application, i.e. 1 January 2019.

The company finds that it has leased fixed assets that do not meet the criteria for directing the use of the leased asset, and therefore does not record the effects of the transition to changes in those standards.

6.4. Long-term financial investments

Long-term financial investments are long-term financial investments in the equity of subsidiaries, affiliated companies and other businesses.

A financial investment is measured at fair value upon initial recognition. The initially recognized value is increased by transaction costs arising directly from the purchase or issue of a financial asset, except for assets belonging to a group of assets measured at fair value through profit and loss.

Equity investments in subsidiaries, affiliated companies and joint operations are measured at historical cost.

Financial investments in equity instruments whose price is not published in the active market and whose fair value cannot be reliably measured and in derivative financial instruments which are associated with such financial investments and need to be reconciled with them, are measured at historical cost.

In accounting for normal purchases and sales of financial investments, the company takes into account the trade date.

The company's profit-sharing amounts and dividends are recognized in the profit and loss account upon obtaining the right to pay out profit shares or dividends.

In the transition to the amended SAS 3, which entered into force on 1 January 2019, there were no effects on the financial statements neither as at 1 January 2019 nor 31 December 2019.

6.5. Deferred tax assets

Deferred tax assets are deductible temporary differences between the carrying amount and the tax value of liabilities. They are reported as long-term receivables.

Deferred tax assets are recognized in the amount of possible available future taxable profit, against which the deferred asset can be utilized in the future.

The recognition of deferred tax uses the balance sheet liability method, taking into account temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the values for tax reporting purposes.

6.6. Operating receivables

Receivables of all types are shown at the value arising from the relevant documents, on the assumption that they will be paid.

The company's operating receivables are impaired if it is estimated that their recoverable amount is less than the carrying amount.

Risks arise mainly in respect of trade receivables, which the company has secured with blank drafts or bank guarantees.

6.7. Short-term financial investments

Financial investments form an integral part of the company's financial instruments to increase their financial revenues within short periods with the returns deriving from them. They include deposits with maturities of more than 3 days after acquisition.

They are classified as loans measured at amortized cost using the effective interest method and other short-term financial investments other than loans measured at cost.

6.8. Cash and cash equivalents

Cash and cash equivalents comprise book money and short-term deposits and deposits with banks with a maturity of up to three days after acquisition.

Deposit money is available or on call in an account with a bank or other financial institution that can be used for payment.

6.9. Accrued expenses/revenue and deferred revenue/ expenses

Short-term deferred expenses and accrued revenue comprise short-term deferred costs, which upon their creation do not have an impact on results of the company and short-term accrued revenue, which are taken into consideration in the profit and loss, but have not been charged yet.

Short-term accrued expenses and deferred revenue are shown in advance based on straight-line burdening of profit and loss with expected costs which have not been recognized yet and short-term deferred revenues for the services not yet provided but already charged.

6.10. Equity

Equity determined by both the amounts invested by owners and the amounts generated in the course of operations that belong to the owners. It may be reduced by the loss or distribution of profits and reserves arising from the valuation at fair value.

The total equity of a company consists of called-up capital, capital surplus, profit reserves, reserves resulting from fair value measurement, net profit transferred from previous years or net loss transferred from previous years and transitional not yet distributed net profit or not yet settled net loss of financial years.

The share capital and capital reserves represent the owners' monetary and real contributions.

Other revenue reserves are formed on the basis of the decisions of the Management and the General Meeting.

Net profit or loss represents the undistributed portion of the company's net profit or loss for the current year.

6.11. Provisions

Provisions are build up against liabilities which will occur, according to the projections based on binding past events, in the period longer than one year, and the value of which can be reliably assessed or measured.

The estimate of provisions for jubilee benefits and severance payments is made on the basis of reports of certified actuarial appraisers under assumptions of employee turnover of up to 3.0% and a discount rate of 0.64%, and the estimation of other provisions is based on the methodology adopted by the company Management. For provisions from onerous contracts arising from the commitment in the Intergovernmental Agreement on NEK, the methodology requires the creation of provisions based on the three-year average value of the fixed costs as defined in the NEK Economic Plan.

6.12. Current operating liabilities

Liabilities of all types are initially disclosed at their original values deriving from the relevant accounting documents.

Debts to legal or natural persons abroad are converted into the domestic currency on the day of their creation. The exchange rate difference that arose until the day of settlement of such liabilities or up to the balance sheet date constitutes financial expenses or income.

In the balance sheet, liabilities that are already due but not yet settled and liabilities that are due for payment within one year from the balance sheet date are recorded as short-term liabilities.

Long-term liabilities relate to liabilities that are due for payment over a period longer than one year.

6.13. Contingent assets and liabilities

Contingent assets and liabilities include business events that have no direct impact on the items in the financial statements but provide important information to annual report readers. Contingent assets and liabilities may extinguish or acquire a new quality at future business events and even affect items in the balance sheet and the profit and loss account.

6.14. Revenue

Revenue is broken down into operating revenues, financial revenues and other revenues. Operating revenue and financial revenue are considered as regular revenue. Operating revenue is sales revenue and other operating revenue related to business effects.

OPERATING REVENUE

Sales revenues consist of the sales values of products sold or merchandise and materials and services rendered in the accounting period (except for financial revenues on this basis). They are broken down into revenues from the sale of own business effects (products and services) and revenues from the sale of merchandise and materials. Other operating revenues related to business effects are subsidies, grants, recourses, compensations, premiums and similar revenues. Grants received for the acquisition of fixed assets or to cover certain costs remain temporarily among deferred revenues and are transferred to operating revenues in accordance with the depreciation of acquired fixed assets or the incurrence of costs for which they are intended to be covered. Revaluation operating revenues arise on the disposal of property, plant and equipment and intangible assets as surpluses of their sales value over their book value.

FINANCIAL INCOME

Financial income is revenue generated through investment activities. They appear in connection with financial investments as well as in connection with receivables. They consist of accrued interest and shares in the profits of others, as well as revaluation financial revenues.

Other revenue consists of unusual items and other revenues that increase the profit or loss.

RECOGNITION

Revenue is recognized if an increase in economic benefits during the accounting period is related to an increase in assets or a decrease in liabilities, and such an increase can be measured reliably. Revenue is recognized when it is reasonable to expected it will result in receipts for the company.

The company recognizes sales revenue when it fulfills (or is fulfilling) a contractual obligation. A contractual obligation is a performance obligation of the company to deliver or perform a contractually agreed (promised) goods or services to the buyer. The company fulfills (or is fulfilling) a performance obligation by transferring the contractually agreed goods or services to the buyer.

The goods or services are transferred when the buyer obtains (or is obtaining) control over them. The buyer obtains control of the goods or services when he acquires the right to decide on their use and the right to practically all of their remaining benefits. Such control also includes the ability to prevent others from directing the use of the goods or services and benefiting from them. Benefits from goods or services are potential cash flows that can be obtained directly or indirectly in various ways.

To assess whether it has transferred control of an asset to a customer, the company considers the transfer of control indicators, which include, but are not limited to, the following:

a) The company is currently entitled to receive payment for goods or services.

b) The buyer has a title to the asset – the title may indicate which party can direct the use and obtain virtually all remaining benefits of the asset or restrict other companies' access to those benefits. Therefore, the transfer of ownership of an asset may indicate that the purchaser has acquired control of the asset. However, if the company retains the property right solely as protection against the buyer's default, this property right would not prevent the buyer from acquiring control of the asset.

c) The company has transferred physical possession of the asset – physical possession of the asset by the buyer may indicate that the buyer can direct the use and obtain practically all the remaining benefits of the asset or restrict other companies from accessing those benefits.

d) The buyer assumes significant risks and rewards of ownership of the asset – the transfer of significant risks and rewards of ownership of the asset to the buyer may indicate that the buyer has acquired the ability to directly use and obtain virtually all remaining benefits of the asset. However, in assessing the risks and rewards of ownership of the promised asset, the company excludes all risks that lead to a separate performance obligation in addition to the performance obligation to transfer the asset.

e) The buyer has accepted the asset – the acceptance of the asset by the buyer may indicate that the buyer has gained the opportunity to direct the use and obtain virtually all the remaining benefits of the asset.

MEASUREMENT

Revenue from sales is recognized in an amount that reflects the transaction price, which is allocated to a stand-alone performance obligation. The transaction price is the amount of compensation that the company expects to be entitled to in exchange for the transfer of goods or services to the buyer, except for amounts collected on behalf of third parties. Compensation may include fixed amounts, variable amounts, or both.

In determining the transaction price, the amount of compensation is adjusted for the effects of the time value of money if the time frame of the compensation provides the buyer with a significant financing benefit.

To calculate the effects of the time value of money, the company would use a discount rate that would be reflected in a separate financing transaction between the company and the buyer at the conclusion of the contract, or would reflect the credit characteristics of the buyer, as well as any collateral or guarantee provided by the buyer, including funds transferred under the contract. If the time gap between the fulfillment of the obligation and the payment of the buyer is one year or less, the contract is considered not to contain a significant component of financing.

Where a contract contains several performance obligations, the transaction price per individual performance obligation shall be allocated in an amount corresponding to the amount of compensation to which the company expects to be entitled in exchange for the transfer of goods or services to the buyer. The transaction price is allocated to individual performance obligations in proportion to the independent selling prices of separate goods and/or services in the contract. The independent selling price is the price at which the company would sell the goods or services separately to the buyer. The best evidence of a separate selling price is the price at which the company sells the goods or services in question separately in similar circumstances and to similar buyers.

The variable amount of compensation may be allocated to all performance obligations in the contract or only to certain ones. The variable amount of compensation is only distributed for some performance obligations when its conditions relate to its fulfilment or a certain result of only some, but not all, performance obligations.

6.15. Disclosure of the transition to SAS 15 (2019)

DISCLOSURE IN CONNECTION WITH THE TRANSITION TO THE NEW SAS 15 (2019)

When transitioning to SAS 15 (2019), the company decided to use the date of initial application 1 January 2019. The company's Management examined the impact of the change in the accounting standard SAS 15 (2019) on revenue recognition and found that the change in the standard does not require adjustments to the financial statements as at 1 January 2019 or for previous periods.

6.16. Expenses

Expenses represent a reduction in economic benefits in the accounting period in the form of a decrease in assets or an increase in debt, and this reduction can be reliably measured.

Operating expenses are recognized upon purchase of merchandise or upon completion of a service. In addition to the cost of goods, operating expenses also include material costs, service costs, labour costs, depreciation costs, and other costs.

Financial expenses arise in relation to debts, short-term financial investments and short-term liabilities. They are recognized based on the statements of account, regardless of the payments associated with them. Interest is recognized in proportion to the expiry of the period, as well as the outstanding portion of the principal and the agreed interest rate.

6.17. Taxes

The company is a tax payer subject to the Value Added Tax Act and the Corporate Income Tax Act. Income tax includes current and deferred tax. It is declared in the profit and loss account.

Current tax is calculated from the taxable profit for the financial year at the tax rate in force at the balance sheet date.

Deferred tax liabilities or assets are measured at the tax rates expected to apply when the asset is realized or the liability is settled. Here, the tax rates and tax regulations effective at the balance sheet date are taken into account. Deferred tax is recognized directly in the debit or credit of equity if the tax relates to items recognized directly in the debit or credit of equity.

6.18. Events after the balance sheet date

On 5 May 2020, the company Management approved the financial statements of the company GEN and the Annual Report for the financial year ended on 31 December 2019. There were no business events until the issue of the auditor's report that would affect the financial statements for the year 2019.

6.19. Segment reporting

The company GEN energija d.o.o. has no defined area or district segments.

7. Notes on the financial statements

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

7.1. Intangible assets

Changes in intangible assets, in EUR	Intangible assets	Other intangible assets	Total
ORIGINAL COST			
As at 31/12/2018	**3,436,858**	**109,934**	**3,546,792**
Acquisitions	48,174	365,447	413,621
Reclassification	34,043	-34,043	0
As at 31/12/2019	**3,519,075**	**441,338**	**3,960,413**
ACCUMULATED DEPRECIATION			
As at 31/12/2018	**3,312,523**	**98,274**	**3,410,797**
Depreciation	92,233	1,989	94,222
As at 31/12/2019	**3,404,756**	**100,263**	**3,505,019**
NET BOOK VALUE			
As at 31/12/2018	**124,335**	**11,660**	**135,995**
As at 31/12/2019	**114,319**	**341,075**	**455,394**
ORIGINAL COST			
As at 31/12/2017	**3,383,000**	**110,114**	**3,493,114**
Acquisitions	52,797	1,920	54,717
Reclassification	2,100	-2,100	0
Derecognition	-1,039	0	-1,039
As at 31/12/2018	**3,436,858**	**109,934**	**3,546,792**
ACCUMULATED DEPRECIATION			
As at 31/12/2017	**3,202,794**	**93,008**	**3,295,802**
Depreciation	110,768	5,266	116,034
Derecognition	-1,039	0	-1,039
As at 31/12/2018	**3,312,523**	**98,274**	**3,410,797**
NET BOOK VALUE			
As at 31/12/2017	**180,206**	**17,106**	**197,312**
As at 31/12/2018	**124,335**	**11,660**	**135,995**

Intangible assets are predominantly assets invested in the company's information systems required for performing business operations. Compared with the balance from the previous period, their value increased on account of investments in information systems for supporting the operations of the company GEN, which exceeded the depreciation allowance.

7.2. Tangible fixed assets

Changes in tangible fixed assets, in EUR	Land	Buildings	Equipment	Assets in production	Total
ORIGINAL COST					
As at 31/12/2018	**528,904**	**8,670,983**	**4,858,441**	**12,054,953**	**26,113,281**
Acquisitions	0	5,691	126,997	261,584	394,272
Reclassification	-13,650	2,865	9,275	1,510	0
Disposals, derecognition	-29,466	-338,307	-1,194	0	-368,967
As at 31/12/2019	**485,788**	**8,341,232**	**4,993,519**	**12,318,047**	**26,138,586**
ACCUMULATED DEPRECIATION					
As at 31/12/2018	**0**	**2,626,562**	**4,155,528**		**6,782,090**
Depreciation	0	351,170	246,796		597,966
Revaluation	14,637	148,509			163,146
Disposal	-14,637	-187,840	-1,194		-203,671
As at 31/12/2019	**0**	**2,938,401**	**4,401,130**		**7,339,531**
NET BOOK VALUE					
As at 31/12/2018	**528,904**	**6,044,421**	**702,913**	**12,054,953**	**19,331,191**
As at 31/12/2019	**485,788**	**5,402,831**	**592,389**	**12,318,047**	**18,799,055**
ORIGINAL COST					
As at 31/12/2017	**528,904**	**8,600,456**	**4,664,923**	**10,648,595**	**24,442,878**
Acquisitions	0	70,527	206,744	1,406,358	1,683,629
Disposals, derecognition	0	0	-13,226	0	-13,226
As at 31/12/2018	**528,904**	**8,670,983**	**4,858,441**	**12,054,953**	**26,113,281**
ACCUMULATED DEPRECIATION					
As at 31/12/2017		**2,269,387**	**3,905,300**		**6,174,687**
Depreciation		357,175	263,454		620,629
Disposal		0	-11,708		-11,708
Derecognition		0	-1,518		-1,518
As at 31/12/2018		**2,626,562**	**4,155,528**		**6,782,090**
NET BOOK VALUE					
As at 31/12/2017	**528,904**	**6,331,069**	**759,623**	**10,648,595**	**18,268,191**
As at 31/12/2018	**528,904**	**6,044,421**	**702,913**	**12,054,953**	**19,331,191**

The company's tangible fixed assets are acquired land and buildings as business premises in which the company GEN operates and which are owned by the company, as well as equipment that relates exclusively to the equipment necessary for the operations of the company.

The majority of tangible fixed assets are:

- assets in acquisition, which consist of replacement construction activities for the JEK capacity expansion project, in the amount of EUR 6,681,262,

- costs of research and studies for the purpose of the JEK 2 investment in the amount of EUR 5,630,505, and
- buildings, the largest part of which is the GEN Information Centre – on the last day of the accounting period, its carrying value was EUR 5,344,781.

As early as 2015, in line with the Management's resolution and the adopted Ordinance on State-owned Assets Management Strategy, which defines the role of the company GEN as the lead partner in connection with the JEK 2 investment, the company GEN began to recognize the costs of outsourced studies and research for the JEK 2 investment as assets.

The acquired fixed assets of GEN on the last day of the accounting period have not been pledged and GEN has no financial obligations from this title.

7.3. Long-term financial investments

Long-term financial investments, in EUR	Equity interests and voting rights, in %		Investment value		Companies' capital	Companies' net profit or loss
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	2019
Subsidiaries			**291,325,953**	**291,325,953**		
SEL	100.00%	100.00%	137,680,172	137,680,172	158,086,396	1,219,579
TEB	100.00%	100.00%	28,909,824	28,909,824	67,778,189	1,215,060
HESS	33.50%	33.50%	89,959,276	89,959,276	284,518,170	2,391,060
GEN-I	50.00%	50.00%	10,585,639	10,585,639	92,966,982	15,527,599
GEN-EL	25.00%*	25.00%	24,191,042	24,191,042	47,092,499	1,961,557
Affiliated companies			**176,782,413**	**176,782,413**		
NEK	50.00%	50.00%	176,772,413	176,772,413	439,901,743	0
SRESA	10.00%	10.00%	10,000	10,000	57,782	-5,187
Other companies			**124,101**	**124,101**		
ZEL-EN	**9.28%**	**9.28%**	**124,101**	**124,101**	**n/a**	**n/a**
Total			**468,232,467**	**468,232,467**		

*The equity interest in GEN-EL stands at 25,00%, the economic ownership of GEN-EL is 100%.

Long-term financial investments predominantly represent investments in companies in the Group in which GEN has a direct or indirect majority stake or a share in affiliated companies. The total value of these investments is EUR 468,108,366.

SUBSIDIARIES

The company GEN exercises its controlling influence over the company GEN-I on the basis of the Memorandum of Association of the company GEN-I, effective as of 14 December 2016, the Umbrella Agreement on the Purchase and Sale of Electricity of 14 December 2016, the corresponding Annex 4 to the Umbrella Agreement on the Purchase and Sale of Electricity of 28 June 2019, and the statement from the management.

The company GEN exercises its controlling influence over the company GEN-EL based on options contracts that allow GEN and the companies in the GEN Group to acquire interests in GEN-EL – these contracts are concluded between the following companies:

- GEN and Elektro Ljubljana for the acquisition of a 25% interest in GEN-EL;

- GEN-I and the Craftsmen and Entrepreneurs Fund to acquire a 16% stake in GEN-EL;
- GEN-I and Gorenjska banka to acquire a 9% stake in GEN-EL.

The company GEN, with a direct 33.5% equity interest in HESS, also holds a 17.5% indirect interest through subsidiaries in SEL, at 14.7%, and in TEB, at 2.8%. Due to GEN's indirect controlling influence over it, the company HESS is classified as a subsidiary.

AFFILIATED COMPANIES

Due to the additional 30% indirect share of the SEL subsidiary, SRESA is ranked among the affiliated companies.

Following the release of revised SAS 2006, the company GEN started recording its investment in a 50% equity interest in NEK as an investment in an affiliated company. The same treatment remained effective after the release of the revised SAS 2016. For disclosures of follow-up capital investments, see Section 7.9. Contingent assets and liabilities.

7.4. Deferred tax assets

Changes in deferred tax assets, in EUR	2019	2018
Opening balance	**5,794,764**	**5,837,453**
Reversal and disbursement of provisions	-1,121	-61,506
Increase due to provisioning	617,851	23,131
Other	0	-4,314
Closing balance	**6,411,494**	**5,794,764**

A large portion of the deferred tax assets arises from the creation of provisions for onerous contracts, for covering the liabilities to NEK in the event of an unplanned decrease in NEK's production output, amounting to EUR 6,339,999.

Compared to the previous year, deferred tax assets increased, which is largely due to the need for creating additional provisions for onerous contracts.

7.5. Short-term financial investments

At the end of 2019, the company recorded short-term financial investments in the amount of EUR 57,815,442, and at the end of 2018, EUR 33,206,560. The majority of short-term financial investments are classified into a group of investments in loans, namely as investments in the form of deposits with banks, which totalled EUR 57,620,278 at the last day of the reporting period, as against EUR 33,011,396 at the end of 2018. The remaining investments are available-for-sale financial investments valued at cost.

Agreements signed with financial institutions in Slovenia form the basis for recognizing investments in loans. The interest rates for bonding funds in the form of deposits with banks are extremely low, some even negative, and the company avoids the financial risk of negative interest rates offered by banks with a diversified investment strategy and the maintenance of funds in their bank accounts.

7.6. Short-term operating receivables

Short-term operating receivables, in EUR	31/12/2019	31/12/2018
Short-term trade receivables from Group companies	**19,799,344**	**16,349,744**
Short-term receivables from GEN-I	18,923,333	15,910,985
Short-term receivables from SEL	752,968	364,556
Short-term receivables from TEB	121,767	72,986
Short-term receivables from GEN-EL	1,217	1,217
Short-term receivables from HESS	59	0
Short-term trade receivables from others	**3,061,370**	**4,279,227**
Short-term operating receivables for electricity sold to others	3,035,194	4,212,412
Short-term operating receivables from others	26,176	66,815
Short-term receivables from national institutions	**4,117,755**	**2,547,785**
Other short-term receivables	**15,640**	**11,294**
Total	**26,994,109**	**23,188,050**

Short-term trade receivables predominantly account for trade receivables on the basis of sold electricity.

Payment periods for trade receivables are mostly 30 days from the last day of the accounting period and are largely secured with blank drafts and a bill of exchange or guarantee.

The company has no due outstanding receivables.

For past due receivables that the company would redistribute to doubtful and disputed receivables, a value adjustment is made for each individual claim.

7.7. Cash and cash equivalents

On the last day of the reporting period, cash amounted to EUR 10,700,249, and on the last day of 2018, EUR 11,876,697. This takes the form of cash held in transactional accounts with Abanka, NLB, SKB and UniCredit Banka, as well as cash in an overnight deposit and a call deposit account.

GEN does not have an agreed automatic overdraft or fixed-limit contract for a permissible negative balance.

7.8. Deferred expenses and accrued revenue

Short-term deferred expenses and accrued revenue, in EUR	31/12/2019	Formation	Disbursement	31/12/2018
Short-term deferred expenses	132,014	230,082	155,147	57,079
Short-term accrued revenue	78,532	78,532	29,599	29,599
Total	**210,546**	**308,614**	**184,746**	**86,678**

Deferred expenses and accrued revenue mainly relate to costs which are charged in advance and consequently deferred but are not yet charged against the activity. In 2019, the reductions or drawdowns of short-term deferred expenses were transferred to costs in full.

7.9. Contingent assets and liabilities

Contingent assets and liabilities, in EUR	31/12/2019	31/12/2018
Payment bank guarantees – received	1,161,114	2,940,027
Satisfactory performance & defect elimination bank guarantees – received	0	51,061
Received bills of exchange	0	1,563
Contingent liability for follow-up capital contributions	20,925,000	0
Enforcement draft for securing purchase consideration from an options contract	11,765,657	11,740,289
Satisfactory performance bank guarantees – issued	600,000	550,000
Estimated short-term debts	47,673	47,673
Total	**34,499,444**	**15,330,613**

The company GEN classifies as contingent assets and liabilities its obligation to make follow-up capital contributions to NEK in the amount of EUR 20,925,000 in 2020 and 2021, based on the resolution of the General Meeting. Contingent liabilities for follow-up capital contributions will decrease, while the financial investment in NEK will increase by the same amount in proportion to the contributions paid in the said period.

7.10. Equity

Equity structure, in EUR	31/12/2019	31/12/2018
Share capital	**250,000,000**	**250,000,000**
Capital reserves	**131,756,895**	**131,756,895**
Paid-in surplus SEL	115,368,043	115,368,043
Paid-in surplus TEB	16,388,694	16,388,694
General equity revaluation adjustment	158	158
Revenue reserves	**86,362,960**	**68,418,953**
Legal reserves	2,605,980	2,605,980
Other revenue reserves	83,756,980	65,812,973
Fair value reserves	**-80,810**	**-20,009**
Retained net profit or loss	**5,000,000**	**4,000,000**
Net profit or loss	**13,691,633**	**12,252,374**
Total equity	**486,730,678**	**466,408,213**

The total equity of the company increased by EUR 20,322,465 in 2019 as a result of the generated net profit of EUR 27,383,266 for the current year, the profit share paid out to the company owner in the amount of EUR 7,000,000 and other minor changes in reserves due to revaluation. Based on the owner's resolution, a portion of the profit from 2018, in the amount of EUR 4,252,374, was transferred to other revenue reserves, and based on the Management's resolution, EUR 13,691,633 of net profit for 2019 was reassigned to other reserves.

7.11. Balance-sheet profit account

Balance-sheet profit, in EUR	2019	2018
Balance-sheet profit opening balance	**16,252,374**	**13,769,463**
Profit-sharing payouts	-7,000,000	-6,000,000
Net profit for the financial year	27,383,266	24,504,748
Increase in revenue reserves as per company bodies' resolution	-17,944,007	-16,021,837
Balance-sheet profit closing balance	**18,691,633**	**16,252,374**

The Management and Supervisory Board of the company GEN propose to the founder to assign balance-sheet (distributable) profit in the amount of EUR 18,691,633 to other revenue reserves in order to provide a source of funding for the purpose of maintaining the safe operation of its existing energy facilities and investing in the development and capital expenditures in energy companies such as:

- follow-up capital contributions to NEK,
- payment for the purchase of equity interests in electric utilities,
- expansion of Krško Nuclear Power Plant generation capacities,
- investments in information technology and other fixed assets necessary for the smooth operation of the company,
- other purposes in 2020 in accordance with the Business Plan of the company GEN and the GEN Group for 2020.

7.12. Provisions, long-term accrued expenses and deferred revenue

Provisions, in EUR	31/12/2019	Changes	31/12/2018
Provisions for onerous contracts	66,736,833	6,338,500	60,398,333
Provisions for severance and jubilee payments	748,744	153,401	595,343
Long-term accrued expenses and deferred revenue	507	-359,382	359,889
Total	**67,486,084**	**6,132,519**	**61,353,565**

Provisions from onerous contracts are created in accordance with the Intergovernmental Agreement on NEK in order to cover for NEK's liabilities in the event of an unplanned reduction in its production output. All provisions were additionally created by increasing the corresponding expenses.

7.13. Financial liabilities

Long-term financial liabilities, in EUR	31/12/2019	31/12/2018
Long-term financial liabilities to Group companies	**0**	**1,183,564**
Long-term financial liabilities to GEN-I from options contracts	0	1,183,564
Long-term financial liabilities to others	**0**	**11,771,289**
Long-term financial liabilities to others from options contracts	0	11,740,289
Long-term financial liabilities to others	0	31,000
Total	**0**	**12,954,853**

Short-term financial liabilities, in EUR	31/12/2019	31/12/2018
Short-term financial liabilities to Group companies	**1,183,564**	**0**
Short-term financial liabilities to GEN-I from options contracts	1,183,564	0
Short-term financial liabilities to others	**11,885,888**	**120,230**
Short-term financial liabilities to others from options contracts	11,885,888	120,230
Total	**13,069,452**	**120,230**

Financial liabilities transferred from long-term to short-term almost entirely represent liabilities from options contracts and contracts for the transfer of options contracts, the right to which is to be exercised in 2020. They are also presented under Note 7.3. Long-term financial investments. The financial liabilities are as follows:

- to GEN-I, in the amount of EUR 1,183,564, for the premium payment under the contract on the transfer of options contracts;
- to Elektro Ljubljana, in the amount of EUR 11,727,500, for the payment of the purchase price under an options contract for the acquisition of a 25% interest in GEN-EL;
- in the amount of EUR 158,388 for accrued interest under options contracts during the period under review.

7.14. Current operating liabilities

Short-term operating liabilities, in EUR	31/12/2019	31/12/2018
Short-term liabilities to Group companies	**7,958,348**	**7,461,323**
Short-term liabilities to SEL	3,359,311	1,996,889
Short-term liabilities to GEN-I	755,100	2,585,572
Short-term liabilities to TEB	2,146,511	1,421,633
Short-term liabilities to HESS	1,697,426	1,457,229
Short-term liabilities to other suppliers	**8,964,438**	**9,293,293**
Short-term liabilities to affiliated companies	8,385,869	8,154,579
Short-term liabilities to domestic suppliers	578,569	1,135,550
Short-term liabilities to foreign suppliers	0	3,164
Other current operating liabilities	**4,402,761**	**4,123,483**
VAT liabilities	1,517,360	1,103,230
Corporate income tax – advance payment and reporting liability	1,738,406	1,849,356
Environmental protection liabilities	771,594	776,345
Other liabilities	375,401	394,552
Total	**21,325,547**	**20,878,099**

7.15. Short-term accrued expenses and deferred revenue

Short-term accrued expenses and deferred revenue, in EUR	31/12/2019	Formation	Disbursement	31/12/2018
Accrued costs or expenses	176,357	176,357	161,084	161,084
Short-term deferred revenue	597,789	597,789	0	0
Other	0	23,511	23,574	63
Total	**774,146**	**797,657**	**184,658**	**161,147**

Accrued expenses mainly represent accrued expenses for unused annual leave of the employees. Short-term deferred revenue, in the amount of EUR 597,230, represents the transfer of long-term accrued expenses and deferred revenue from accrued interest under options contracts presented in notes 7.3. and 7.13.

7.16. Revenue

Revenue, in EUR	2019	2018
Operating revenue	206,158,498	201,279,412
Financial revenue	2,567,815	2,522,637
Other revenue	5	12,934
Total	**208,726,318**	**203,814,983**

7.17. Operating revenue

Operating revenue, in EUR	2019	2018
Sales revenue in the home market	**205,919,122**	**200,315,972**
Revenue from transactions with Group companies	175,221,535	162,077,422
Revenue from transactions with other companies	30,697,587	38,238,550
Sales revenue in foreign markets	**211,894**	**287,306**
Sales revenue in the EU market	211,894	287,306
Other operating revenue	**27,482**	**676,134**
Revenue from reversal and disbursement of provisions	10,999	656,414
Other revenue	16,483	19,720
Total	**206,158,498**	**201,279,412**

Revenues from sales in the domestic market in the amount of EUR 205,707,660 refer to revenues from the sales of electricity and directly related services in 2019, and EUR 200,096,473 in 2018.

7.18. Financial income

Financial revenue in EUR	2019	2018
Financial revenue from shares and interests	**2,511,791**	**2,486,791**
Financial revenue from shares and interests in GEN-I	2,000,000	2,000,000
Financial revenue from shares and interests in GEN-EL	500,000	475,000
Financial revenue interests in other companies	11,791	11,791
Financial revenue from loans granted	**55,675**	**35,824**
Financial revenue from loans to others	55,675	35,824
Financial revenue from operating receivables	**349**	**22**
Total	**2,567,815**	**2,522,637**

7.19. Expenses

Expenses, in EUR	2019	2018
Operating expenses	175,107,156	173,690,275
Financial expenses	273,809	377,076
Other expenses	115,848	115,852
Total	**175,496,813**	**174,183,203**

7.20. Operating expenses

Operating expenses, in EUR	2019	2018
Original cost of goods sold, material costs	153,166,116	158,898,367
Costs of services	1,852,299	1,946,750
Labour costs	4,053,530	3,723,463
Write-downs	855,334	736,664
Other operating expenses	15,179,877	8,385,031
Total	**175,107,156**	**173,690,275**

The purchase value of goods sold refers to expenses from the purchase of electricity and lease of capacity under contracts for the purchase of electricity concluded with the companies SEL, TEB, HESS, HSE or rather TALUM, and GEN-I, and under the provisions of the Intergovernmental Agreement on NEK and NEK's Memorandum of Association, according to which the electricity supplied from NEK is accounted for following the principle of covering all NEK's costs. Expenses from transactions with the Group companies which are incurred in the context of the cost of goods sold amounted to EUR 70,202,941.

COSTS OF SERVICES

Costs of services, in EUR	2019	2018
Costs of intellectual and personal services	563,757	605,088
Rental costs, domain name registrations	190,754	206,429
Costs of office allowance, sponsorships, promotions	330,115	345,104
Supervisory Board costs	194,030	146,356
Work-related expense reimbursements to employees	106,230	96,745
Maintenance costs	220,496	319,679
Other	246,917	227,349
Total	**1,852,299**	**1,946,750**

Costs of intellectual and personal services, in EUR	2019	2018
Business consultation costs	203,594	192,137
Professional training and education costs	95,176	49,665
Other costs of intellectual services	264,987	363,286
Total	**563,757**	**605,088**

LABOUR COSTS

Labour costs, in EUR	2019	2018
Payroll costs	3,104,351	2,807,508
Social security and pension insurance costs	617,861	567,746
– social security contributions	512,241	469,525
– supplementary pension insurance	105,620	98,221
Other labour costs	331,318	348,209
Total	**4,053,530**	**3,723,463**

In the year 2019, GEN employed 56.52 workers in hours worked, and the employee's representation by level of education is an integral part of the business report.

OTHER OPERATING EXPENSES

Other operating expenses in EUR	2019	2018
Costs from provisioning	6,338,500	72,927
Environmental charges	8,298,880	8,234,143
Other operating costs	542,497	77,961
Total	**15,179,877**	**8,385,031**

Environmental protection expenditure fully represents the total paid contributions pursuant to the NEK Fund Act in the amount of EUR 3 per MWh of electricity generated at NEK.

COSTS BY FUNCTIONAL GROUP

Costs by functional group, in EUR	2019	2018
Original cost of goods sold	153,010,484	158,754,350
Costs of selling, with depreciation/amortization	2,483,944	2,207,409
General and administrative costs, with depreciation/amortization	19,612,728	12,728,516
Total	**175,107,156**	**173,690,275**

7.21. Cash flow statement

The cash flow statement is compiled according to the indirect method – version II. The data for the indirect method is obtained:

- by supplementing items in operating revenue and operating expenses and financial revenues from operating receivables and financial expenses from operating liabilities, excluding revaluation income and expenses related to investments and financing from the profit and loss account and the balance sheet,
- from the company's books of accounts.

Items of receipts and expenditures from the cash flow statement for 2019 comprise:

a) cash flows from operating activities, including:
   - operating income and operating expenses, corporate income tax and other taxes, corrected by changes in the net current assets of the balance sheet items,

b) cash flows from investments, including:
   - receipts from interest on short-term financial investments for time deposits totalling EUR 46,793,
   - receipts from received shares in profit in the amount of EUR 2,511,791,
   - receipts from the disposal of tangible fixed assets in the amount of EUR 165,297,
   - receipts from investing in short-term financial investments in the form of deposits in the amount of EUR 61,100,000,
   - expenses for the acquisition of intangible assets mainly disclosed as long-term property rights, in the amount of EUR 414,566,
   - expenses for the acquisition of tangible fixed assets in the total amount of EUR 428,522,
   - expenses for the acquisition of short-term financial investments in the form of deposits in the amount of EUR 85,700,000,

c) cash flows from financing, including:
   - receipts from the increase in financial liabilities under the options contracts for the acquisition of an interest in GEN-EL, in the amount of EUR 238,500,
   - interest expense relating to financing under the options contract for the purchase of an interest in GEN-EL, in the amount of EUR 238,500,
   - expenses for the payment of profit sharing in the amount of EUR 7,000,000.

The final balance of cash includes cash in transactional accounts, as well as cash in an overnight deposit and a call deposit account.

7.22. Taxes

Effective tax rate	2019	2018
Profit or loss before tax, in EUR	33,229,505	29,631,780
Corporate income tax, in EUR	-6,456,587	-5,083,867
Deferred taxes, in EUR	610,348	-43,165
Deferred taxes not impacting profit or loss, in EUR	6,382	28
Applicable tax rate	19.00%	19.00%
Ratio of tax expenditure to profit or loss before tax	**19.43%**	**17.16%**
Effective tax rate	**17.59%**	**17.30%**

Pursuant to the Corporate Income Tax Act, the company is obligated to account for and pay corporate income tax, which was charged at the tax rate of 19% in the accounting period of the financial year 2019. The amount of deferred tax assets was calculated at the rate of 19%.

8. Other disclosures

8.1. The total amount of remuneration in the financial year for the performance of function in the company

Work-related net remuneration in 2019 (excl. holiday allowances and reimbursed costs), in EUR	2019
Management remuneration	89,938

Work-related net remuneration in 2019 (excl. holiday allowances, jubilee payments and reimbursed costs), in EUR	2019
Employee remuneration under executive employment contracts	385,507
Members of the Supervisory Board and its committees	108,402

Remuneration of members of the GEN Supervisory Board and its committees in 2019, in EUR	Performance of function		Meeting attendance fees		Costs		Total		Monthly remunerat. for the perfor. of function gross
	gross	net	gross	net	gross	net	gross	net	
	(1)	(2)	(3)	(4)	(5)	(6)	(1)+(3)+(5)	(2)+(4)+(6)	
Karol Peter Peršolja									
SB Chairman	8,075	5,873	1,650	1,200	604	439	10,329	7,512	1,413
RC Dep. Chairman	1,471	1,070	1,100	800	25	19	2,597	1,889	259
Saša Ivan Geržina									
SB Dep. Chairman	5,922	4,307	1,650	1,200	272	198	7,844	5,705	1,036
RC Chairman	2,019	1,468	1,100	800	0	0	3,119	2,268	353
Roman Dobnikar									
SB Member	5,383	3,915	1,650	1,200	725	527	7,758	5,643	942
AC Chairman	2,019	1,468	660	480	37	27	2,715	1,975	353
Vanessa Grmek									
SB Member	5,383	3,915	1,650	1,200	499	363	7,532	5,478	942
RC Member	305	222	440	320	19	14	765	556	235
Alojz Dimič									
AC Member	4,592	3,340	1,540	1,392	373	272	6,505	5,003	353
Samo Fürst									
SB Member	12,244	8,885	4,565	3,320	689	501	17,499	12,707	(942*) 1,083
AC Dep. Chairman	1,381	1,004	660	556	105	76	2,146	1,637	259
AC Member	1,806	1,313	880	789	205	149	2,890	2,251	271
Robert Bergant									
SB Member	9,029	6,547	3,465	2,520	20	15	12,515	9,082	(942*) 1,083
Katja Simončič									
RC Member	3,061	2,226	3,300	2,400	1,377	1,002	7,738	5,628	(235*) 271
Mateja Čuk									
SB Member	217	158	275	200	102	74	593	432	1,083
SB Chairwoman	9,967	7,228	2,640	1,920	712	518	13,319	9,667	1,625
Miha Šebenik									
SB Member	7,511	5,443	2,915	2,120	694	505	11,120	8,067	1,083
RC Chairman	2,492	1,812	2,200	1,600	221	161	4,912	3,573	406
Miha Butara									
SB Member	217	158	275	200	86	63	578	420	1,083
SB Dep. Chairman	6,659	4,823	2,365	1,720	460	335	9,484	6,878	1,192
AC Chairman	997	725	880	719	109	79	1,986	1,523	163
RC Member	1,661	1,208	2,200	1,600	282	205	4,143	3,014	271
Marjanca Molan Zalokar									
SB Member	3,215	2,338	1,100	800	13	10	4,328	3,148	1,083
Lovro Lapanja									
SB Member	6,861	4,970	2,915	2,120	694	505	10,470	7,595	1,083
RC Member	1,661	1,208	2,200	1,600	687	500	4,548	3,308	271
Total	**104,148**	**75,625**	**44,275**	**32,777**	**9,011**	**6,554**	**157,434**	**114,956**	

* Monthly remuneration for the performance of function until 7 June 2019

8.2. Costs of auditing and business consultation services

The costs related to audit services in 2019 amount to EUR 15,200 and represent the cost of auditing the annual financial statements for the preceding and current accounting period. In 2019, the auditing firm did not conduct any non-audit services.

9. Financial risk management

In the context of financial risks, GEN identifies liquidity, credit, interest and currency risks.

For the purpose of managing **liquidity risk**, the company follows the principle whereby terms of payment for purchases and sales with identical substance are coordinated, that is, terms of payment for purchases are longer than those for sales. The company manages liquidity risks by laying down well-defined contract terms and conditions, by regularly and precisely planning its cash flows on a daily, monthly and yearly basis, by checking their contractual partners and their payment track records, through thoughtful and safe placement of surplus cash, and by hiring short-term loans for current liquidity purposes as and when needed.

In the event of the payment of unplanned liabilities, the company has a portion of its cash assets tied up in overnight deposits and call deposit accounts, and a portion in current bank accounts. These assets may also be made available for the Group companies if they were having difficulty in acquiring liquidity funds in the market.

In 2019, due to exceptionally low interest rates offered by banks on investments in deposits and even their charging of inactivity fees above the agreed limit for assets available in the transactional account, the company managed its exposure to these risks by using an investment strategy whereby available funds continued to be dispersed among the most favourable providers of surplus cash deposit services. GEN also avoids exceeding the limits, hence their keeping of assets in bank accounts, which is also evidenced by the cash balance.

The company's exposure to liquidity risk is moderate on account of its established asset management principles, procedures and rules adapted to the various trends in the banking markets.

The company manages its exposure to **credit risks** by thoroughly checking the credit ratings and liquidity positions of their existing and prospective business partners and banks, by having a clearly defined debt collection procedure and collection letter system in place, and by signing properly secured contracts (with drafts, bank guarantees).

The gravity of the identified risk depends mostly on the partner's business results, particularly level of debt, short-term liquidity, solvency indicators, and profitability indicators. We place a strong emphasis on obtaining up-to-date information from the market, since various market and regulatory changes may cause a partner's standing to quickly falter.

Interest rate risk is relatively low because the company has a small amount of short-term debt. When taking out new loans, these risks can be managed through derivative financial instruments.

Currency risk is relatively low since the company rarely operates in a foreign currency.

The company finds that the financial risks were successfully managed in 2019.

10. Events after the reporting period

The company GEN estimates that after the reporting period and up until the release of this Annual Report, there were no business events that would have a material impact on the company's financial statements for 2019.

In January 2020, the company GEN made a transfer in the amount of EUR 7,575,000 to NEK as paid-in capital reserves in accordance with a resolution adopted by the NEK General Meeting.

As Slovenia faced an outbreak of COVID-19, the company GEN advised its employees as early as February 2020 to take precautions to avoid the COVID-19 infection and to keep business trips down to a minimum; when an epidemic was declared, the company took steps to organize and implement telecommuting for all employees, with some exceptions. The company GEN made appropriate adjustments to its work processes so as to ensure safe and reliable operation of all the Group's production facilities – all this time, their operation was indeed smooth and without interruptions. Due to its surplus cash investments in short-term deposits and the slowdown in the planned investments, the company has at its disposal enough available assets to be able to continue smooth financial operations during short periods of emergency.

On 5 May 2020, the company Management approved the financial statements of the company GEN and the Annual Report for the financial year ended on 31 December 2019.

IV FINANCIAL REPORT OF THE GEN GROUP

1. Independent auditor's report

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Owner of GEN energija d.o.o.

Opinion

We have audited the consolidated financial statements of Group GEN, Krško (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group GEN, Krško as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting policies of the Group GEN, Krško, which are explained in points 4.2. Basis for the compilation of consolidated financial statements and notes 4.3. Significant accounting policies of the Group GEN, Krško in the notes to the consolidated financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information comprises the information included in the consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Building a better working world

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting policies of the Group GEN, Krško, which are explained in points 4.2. Basis for the compilation of consolidated financial statements and notes 4.3. Significant accounting policies of the Group GEN, Krško in the notes to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee oversees the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

• obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control.

Ljubljana, 6 May 2020

Sanja Košir Nikašinović
Director, Certified Auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Mateja Repušič
Certified Auditor

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

2. Statement of the Management

The Management of the company GEN is responsible for drawing up a consolidated annual report so as to provide a true and accurate account of the financial position of the GEN Group and its operating results for the financial year extending from 1 January 2019 to 31 December 2019.

The Management hereby confirms that appropriate accounting policies were consistently followed and that accounting estimates were made in accordance with the principles of fair value, prudence and sound management. The Management also confirms that the consolidated financial statements with accompanying notes were prepared under the going concern assumption for the GEN Group and in compliance with the Intergovernmental Agreement on NEK, the applicable legislation, and the International Financial Reporting Standards (IFRS), as adopted by the European Union, in sections not explicitly governed by the Intergovernmental Agreement on NEK.

The tax authorities may review the company's operations at any time within five years of the end of the year in which the tax was due. This may give rise to additional obligations for the payment of tax, default interest and penalties in respect of corporate income tax or other taxes and charges. The company's Management has no knowledge of any circumstances that might cause a major liability to be imposed on the company in this respect.

The Management is also responsible for ensuring proper accounting practices and adopting appropriate measures for the protection of its property and other assets, and confirms that the financial statements with accompanying notes were prepared on a going concern assumption for the GEN Group. The Management hereby accepts and confirms the GEN Group's financial statements with associated policies and notes for 2019.

Vrbina, 5 May 2020

Martin Novšak
General Director, GEN energija d.o.o.

Danijel Levičar
Business Director, GEN energija d.o.o.

3. Financial statements of the Group

3.1. Consolidated statement of financial position

Consolidated statement of the Group's financial position, in EUR	Notes	31/12/2019	31/12/2018
ASSETS		**1,158,885,843**	**1,157,011,560**
Long-term assets		**773,710,034**	**741,513,124**
Intangible assets	5.1.	45,789,995	44,733,649
Tangible fixed assets	5.2.	706,496,354	683,341,380
Investment property	5.3.	1,907,383	1,973,456
Right to use leased assets	5.4.	2,670,333	0
Shares and interests in affiliated companies	5.5.	23,469	156,425
Other long-term financial investments and loans	5.6.	6,102,138	3,350,587
Long-term operating receivables	5.7.	7,891,969	4,404,931
Deferred tax assets	5.8.	2,542,326	3,234,365
Other long-term assets		286,067	318,331
Short-term assets		**385,175,809**	**415,498,436**
Inventories	5.9.	38,458,977	47,839,842
Short-term financial investments	5.10.	98,296,223	103,721,702
Short-term operating receivables	5.11.	120,889,027	149,141,619
Short-term assets from contracts	5.12.	44,553,041	35,642,336
Current corporate income tax receivables		391,459	560,640
Cash	5.13.	74,537,115	72,774,668
Other short-term assets	5.14.	8,049,967	5,817,629
EQUITY AND LIABILITIES		**1,158,885,843**	**1,157,011,560**
Total equity	**5.15.**	**859,835,945**	**818,694,892**
Equity attributable to the owners of the parent company		**720,322,953**	**680,162,262**
Called-up capital		250,000,000	250,000,000
Capital reserves		134,682,435	134,682,435
Legal reserves		12,644,318	11,434,370
Other revenue reserves		110,677,001	86,296,924
Reserves from valuation at fair value		443,988	1,122,981
Retained profit or loss		212,614,086	197,586,290
Translation adjustment to equity		-738,875	-960,738
Equity held by minority owners		**139,512,992**	**138,532,630**
Total liabilities		**299,049,898**	**338,316,668**
Long-term liabilities		**134,731,881**	**140,166,432**
Provisions	5.16.	10,889,718	9,567,496
Long-term financial liabilities	5.17.	115,712,961	123,613,943
Long-term operating liabilities	5.18.	291,773	204,485
Long-term liabilities from contracts	5.18.	249,713	45,782
Deferred tax liabilities	5.8.	6,597,927	5,966,185
Government grants	5.18.	754,558	243,349
Other long-term liabilities	5.18.	235,231	525,192
Short-term liabilities		**161,628,419**	**198,150,236**
Short-term financial liabilities	5.17.	63,945,533	43,095,734
Short-term operating liabilities	5.20.	75,640,327	133,918,831
Short-term liabilities from contracts	5.21.	7,742,132	5,805,277
Current corporate income tax liabilities	5.22.	2,976,040	1,850,563
Other short-term liabilities	5.23.	11,324,387	13,479,831
Lease liabilities	**5.19.**	**2,689,598**	**0**

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction with them.

3.2. Consolidated profit and loss account and statement of other comprehensive income

Consolidated profit and loss account of the Group, in EUR	Notes	2019	2018
Revenue	5.25.	2,215,696,712	2,370,055,399
Other operating revenue	5.26.	29,258,897	5,343,219
Costs of goods, materials and services	5.28.	-2,062,777,313	-2,203,945,439
Labour costs	5.29.	-56,836,978	-51,882,817
Write-downs	5.30.	-38,969,929	-36,626,168
Other operating expenses	5.31.	-22,972,209	-32,736,249
Profit or loss from operating activities		**63,399,180**	**50,207,945**
Financial revenue		1,224,592	1,801,200
Financial expenses	5.32.	-4,965,097	-4,042,004
Total profit or loss		**59,658,675**	**47,967,141**
Taxes	5.34.	-11,171,034	-7,306,429
Net profit or loss for the period		**48,487,641**	**40,660,712**
Net profit or loss of owners of non-controlling interest		**1,174,312**	**1,756,355**
Net profit or loss of owners of controlling interest		**47,313,329**	**38,904,357**

Statement of other comprehensive income of the Group, in EUR	2019	2018
Net profit or loss for the period	**48,487,641**	**40,660,712**
Other comprehensive income reclassified to profit or loss in subsequent periods	**89,552**	**8,493**
Changes in reserves from valuation at fair value (after tax)	243,968	165,905
Gains and losses from translation of financial statements of companies based abroad (impact of changes in exchange rates)	221,863	-110,514
Effective portion of gains and losses from cash flow hedge instruments (after tax)	-376,279	-46,898
Other comprehensive income not reclassified to profit or loss in subsequent periods	**-679,625**	**50,630**
Actuarial gains and losses from programs with fixed earnings (after tax)	-679,625	50,630
Total comprehensive income (after tax)	**47,897,568**	**40,719,835**
Net profit or loss of owners of non-controlling interest	**1,174,312**	**1,756,355**
Actuarial gains and losses from programs with fixed earnings of owners of non-controlling interest (after tax)	**-9,574**	**1,471**
Effective portion of gains and losses from cash flow hedge instruments of owners of non-controlling interest (after tax)	**-184,376**	**-22,979**
Total comprehensive income of owners of non-controlling interest (after tax)	**980,362**	**1,734,846**
Total comprehensive income of owners of controlling interest (after tax)	**46,917,206**	**38,984,988**

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction with them

3.3. Consolidated cash flow statement

Cash flow statement (version II)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit and loss account items	**98,397,843**	**83,343,487**
Operating revenues and financial revenue from operating receivables	2,244,546,298	2,374,913,640
Operating expenses excl. depreciation and financial expenses from operating liabilities	-2,143,153,381	-2,288,769,928
Paid corporate income tax	-2,995,074	-2,800,225
Changes in net current assets under balance sheet operating items	**-9,585,419**	**3,546,623**
Opening less closing operating receivables	21,022,517	-5,797,451
Opening less closing short-term deferred expenses and accrued revenue	-2,155,219	8,568,059
Opening less closing deferred tax assets	706,614	-686,872
Opening less closing inventories	-9,202,289	-7,197,729
Closing less opening operating liabilities	-22,210,522	13,510,028
Closing less opening accrued expenses and deferred revenue, and provisions	984,431	-2,411,924
Closing less opening deferred tax liabilities	1,269,049	-2,437,488
Positive or negative net cash flow from operating activities	**88,812,424**	**86,890,110**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**793,888,756**	**172,883,705**
Receipts from shares in the profit of others from investing activities	291,285	360,102
Receipts from interest received from investing activities	226,157	693,348
Receipts from disposal of tangible fixed assets	471,823	196,393
Receipts from disposal of financial investments	792,899,491	171,633,862
Disbursements in investing activities	**-878,237,934**	**-247,363,056**
Disbursements for acquisition of intangible assets	-1,882,407	-1,321,268
Disbursements for acquisition of tangible fixed assets	-75,125,132	-57,175,849
Disbursements for acquisition of investment property	0	-403,519
Disbursements for acquisition of financial investments	-801,230,395	-188,462,420
Positive or negative net cash flow from investing activities	**-84,349,178**	**-74,479,351**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from financing activities	**194,897,489**	**168,546,475**
Receipts from increase in financial liabilities	194,897,489	168,546,475
Disbursements in financing activities	**-197,598,289**	**-172,460,892**
Disbursements for paid interest associated with financing activities	-2,891,407	-2,807,501
Disbursements for repayment of financial liabilities from lease – interest	-25,800	0
Disbursements for repayment of financial liabilities	-186,964,667	-163,653,391
Disbursements for repayment of financial liabilities from lease – principal	-716,415	0
Disbursements for paid-out dividends and other shares in profits	-7,000,000	-6,000,000
Positive or negative net cash flow from financing activities	**-2,700,800**	**-3,914,417**
Closing balance of cash	**74,537,115**	**72,774,668**
Net cash flow for the period	**1,762,447**	**8,496,342**
Opening balance of cash	**72,774,668**	**64,278,326**

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction with them.

3.4. Consolidated statement of changes in equity

Statement of changes in equity for 2019, in EUR	Called-up capital	Capital reserves	Legal reserves	Other revenue reserves
As at 01/01/2019	**250,000,000**	**134,682,435**	**11,434,370**	**86,296,924**
Changes in equity – transactions with owners	**0**	**0**	**0**	**0**
Paid-out dividends	0	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**	**0**
Net profit or loss for the financial year	0	0	0	0
Valuation of financial investments at fair value (after tax)	0	0	0	0
Other components of comprehensive income (after tax)	0	0	0	0
Changes in equity	**0**	**0**	**1,209,948**	**24,380,077**
Distribution of net profit to other components of equity	0	0	1,209,948	24,380,077
Other changes in equity	0	0	0	0
As at 31/12/2019	**250,000,000**	**134,682,435**	**12,644,318**	**110,677,001**

Statement of changes in equity for 2018, in EUR	Called-up capital	Capital reserves	Legal reserves	Other revenue reserves
As at 31/12/2017	**250,000,000**	**134,682,435**	**11,005,354**	**66,887,597**
Changes due to the implementation of the IFRS 9				
Balance as at 1/1/2018	**250,000,000**	**134,682,435**	**11,005,354**	**66,887,597**
Changes in equity – transactions with owners	**0**	**0**	**0**	**0**
Paid-out dividends	0	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**	**0**
Net profit or loss for the financial year	0	0	0	0
Valuation of financial investments at fair value (after tax)	0	0	0	0
Other components of comprehensive income (after tax)	0	0	0	0
Changes in equity	**0**	**0**	**429,016**	**19,409,327**
Distribution of net profit to other components of equity	0	0	429,016	19,409,327
Other changes in equity	0	0	0	0
As at 31/12/2018	**250,000,000**	**134,682,435**	**11,434,370**	**86,296,924**

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction with them.

Fair value reserve	Retained profit or loss	Translation adjustment to equity	Equity attributable to owners of the parent company	Equity of the owners of non-controlling interest	Total
1,122,981	**197,586,290**	**-960,738**	**680,162,262**	**138,532,630**	**818,694,892**
0	**-7,000,000**	**0**	**-7,000,000**	**0**	**-7,000,000**
0	-7,000,000	0	-7,000,000	0	**-7,000,000**
-690,148	**47,385,491**	**221,863**	**46,917,206**	**980,362**	**47,897,568**
0	47,313,329	0	47,313,329	1,174,312	**48,487,641**
-394,732	72,162	0	-322,570	-9,574	**-332,144**
-295,416	0	221,863	-73,553	-184,376	**-257,929**
11,155	**-25,357,695**	**0**	**243,485**	**0**	**243,485**
0	-25,590,025	0	0	0	**0**
11,155	232,330	0	243,485	0	**243,485**
443,988	**212,614,086**	**-738,875**	**720,322,953**	**139,512,992**	**859,835,945**

Fair value reserve	Retained profit or loss	Translation adjustment to equity	Equity attributable to owners of the parent company	Equity of the owners of non-controlling interest	Total
919,697	**185,471,404**	**-884,211**	**648,082,276**	**136,797,784**	**784,880,060**
	-653,100		**-653,100**		**-653,100**
919,697	**184,818,304**	**-884,211**	**647,429,176**	**136,797,784**	**784,226,960**
0	**-6,000,000**	**0**	**-6,000,000**	**0**	**-6,000,000**
0	-6,000,000	0	-6,000,000	0	**-6,000,000**
191,145	**38,870,370**	**-76,527**	**38,984,988**	**1,734,846**	**40,719,834**
0	38,904,357	0	38,904,357	1,756,355	**40,660,712**
215,067	0	0	215,067	0	**215,067**
-23,922	-33,987	-76,527	-134,436	-21,509	**-155,945**
12,139	**-20,102,384**	**0**	**-251,902**	**0**	**-251,902**
0	-19,838,343	0	0	0	**0**
12,139	-264,041	0	-251,902	0	**-251,902**
1,122,981	**197,586,290**	**-960,738**	**680,162,262**	**138,532,630**	**818,694,892**

4. Notes on the financial statements

4.1. Overview of the GEN Group

GEN energija d.o.o. is the controlling company of the GEN Group. One of the company's principal operations is activities of holding companies, that is, the governing of other legally independent companies in which the company GEN has a controlling influence.

The company is committed to compiling consolidated financial statements, the purpose of which is to present the financial position and the performance of a group of interconnected companies as if they were a single enterprise. Companies whose statements are taken into account when compiling consolidated statements operate as individual companies which, given the relationships among them, constitute an economic unit, but not a legal entity, since the unit as such is not an independent holder of rights and obligations.

The GEN Group is made up of the controlling company, or parent, and subsidiaries included in the GEN Group through consolidation for an entire financial year, which is identical to the calendar year. In accordance with the IFRS, the consolidated financial statements of the GEN Group also include a company defined as a joint operation; also included in the GEN Group are affiliated companies based on the equity method.

Parent company and subsidiaries	Short name	Registered office	Status	Equity interest	Voting interest
GEN energija d.o.o.	**GEN**	**Vrbina 17, Krško**	**Parent**	**-**	**-**
Savske elektrarne Ljubljana d.o.o.	SEL	Gorenjska c. 46, Medvode	Subsidiary	100%	100%
Termoelektrarna Brestanica d.o.o.	TEB	C. prvih borcev 18, Brestanica	Subsidiary	100%	100%
HESS d.o.o. w/ Group	HESS Group	C. bratov Cerjakov 33a, Brežice	Subsidiary	51%	51%
GEN-I d.o.o. w/ Group	GEN-I Group	Vrbina 17, Krško	Subsidiary	50%	50%
GEN-EL d.o.o.	GEN-EL	Vrbina 17, Krško	Subsidiary*	50%	50%

* Based on the analysis of ownership of GEN-EL, taking into consideration the concluded put and call option between GEN and Elektro Ljubljana, put and call option between GEN-I and the Fund of Craftspersons and Entrepreneurs, and put and call option between GEN-I and Gorenjska banka, entered into for the acquisition of an interest in the company GEN-EL, the company GEN is the sole economic owner of the company GEN-EL.

In addition to the controlling company, the **GEN-I Group** comprises the following companies wholly owned by GEN-I:

- GEN-I d.o.o. Beograd, Vladimira Popovića 6, Belgrade
- GEN-I Hrvatska d.o.o., Radnička cesta 54, Zagreb
- GEN-I d.o.o. Sarajevo, Ul. Fra Anđela Zvizdovića 1, Sarajevo
- GEN-I DOOEL Skopje, Bulevar Partizanski odredi 15A/1, Skopje
- GEN-I Tirana Sh.p.k., Ish-Noli Business Center, Rruga Ismail Qemali Nr. 27, Tirana
- GEN-I Athens SMLLC, 6 Anapafseos Street, Marousi
- GEN-I Sofia EOOD, Bulgaria Blvd., residential quarter Bokar, Office Building 19C/D, Sofia
- GEN-I Energia S.r.l., Corso di Porta Romana 6, Milan
- GEN-I Vienna GmbH, Heinrichsgasse 4, Vienna
- GEN-I Istanbul Ltd., Grand Pera, Hüseyinağa Mahallesi, İstiklal Cd. No: 56/58, Kat No: 3, Daire No: 5, 34435 Beyoğlu, İstanbul
- GEN-I Prodažba na energija DOOEL, Skopje, Bulevar Partizanski odredi 15A/1, Skopje
- GEN-I Sonce, d.o.o., Dunajska cesta 119, Ljubljana
- GEN-I Kiev LLC, 45-B Olesia Honchara Str., Kiev
- GEN-I Tbilisi LLC, Old Tbilisi District, Guadiashvili Square, N 4, Tbilisi
- Elektro energija d.o.o., Dunajska cesta 119, Ljubljana
- GEN-I Sonce dooel Skopje, Bulevar Partizanski odredi 15A/1, Skopje
- GEN-I ESCO d.o.o., Ulica Vinka Vodopivca 45A, 5000 Nova Gorica

The **HESS Group**, along with the parent company, also includes the company Partner d.o.o., Cesta bratov Cerjakov 33A, 8250 Brežice.

Company included in the GEN Group as a joint operation in a joint arrangement	Short name	Registered office	Status	Equity interest
Nuklearna elektrarna Krško d.o.o.	NEK	Vrbina 12, Krško	**Joint operation**	50%

Companies included in the GEN Group as affiliated companies	Short name	Registered office	Status	Equity interest
Srednjesavske elektrarne d.o.o.	SRESA	Ob železnici 27, Trbovlje	**Affiliated company**	40%
HSE Invest d.o.o.*	HSE Invest	Obrežna ulica 170, Maribor	**Affiliated company**	25%

* The interest of HSE Invest was sold in 2019.

4.2. Basis for the drawing-up of consolidated financial statements

4.2.1. Statement of compliance

The company conducts its accounting for the purposes of preparing consolidated financial reports of the GEN Group and compiling an annual report of the GEN Group in accordance with the Intergovernmental Agreement on NEK, applicable legislation and the International Financial Reporting Standards (IFRS), as adopted by the European Commission, and in sections not explicitly governed by the Intergovernmental Agreement NEK, in accordance with the interpretations released by the International Financial Reporting Interpretations Committee and adopted by the EU.

The Management of the company GEN approved the consolidated financial statements of the Group on 5 May 2020.

4.2.2. Accounting assumptions and qualitative characteristics

The company GEN drew up the consolidated financial statements – in the part not governed by the Intergovernmental Agreement on NEK – in accordance with the amended CA-1 Act and the IFRS. In order to provide comparable information, these include:

- two consolidated statements of financial position with cutoff dates on 31 December 2018 and 31 December 2019;
- two consolidated profit and loss accounts, statements of other comprehensive income and cash flow statements for the 2018 and 2019 periods;
- two consolidated statements of changes in equity for the 2018 and 2019 periods.

In the Group's financial statements, significant items of financial statements are disclosed in accordance with the materiality provisions defined in the internal act of the accounting rules.

The financial statements of the Group companies and other companies included in the GEN Group are valued on the basis of **uniform accounting policies**. They are included in the consolidated financial statements on the basis of:

- full consolidation when the companies have the status of a subsidiary. Prior to the consolidation of the GEN Group, subsidiaries consolidate their companies within their respective group (GEN-I Group, HESS Group);
- the calculation of assets and liabilities, revenues and expenses of the joint operation;
- equity methods of the joint operation and affiliated companies.

In drawing up of the consolidated financial statements the following **general quality characteristics** are considered:

- fair presentation and compliance with the IFRSs: the consolidated financial statements fairly present the Group's financial position, financial performance and cash flows;
- consistency of presentation: the presentation and classification of items in the consolidated financial statements is the same from period to period;
- materiality and aggregation: each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are insignificant;
- offsetting: neither assets and liabilities nor income and expenses are offset unless required or permitted by a standard or an interpretation;
- comparative information: except when a standard or an interpretation permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information is included in narrative and descriptive information if this is necessary for proper understanding of the financial standards for the period in question.

When evaluating business events during the preparation of the financial statements, the Group follows the **main accounting assumptions** – accrual basis and going concern.

The financial year is equal to the calendar year.

4.2.3. Presentation and functional currency

The financial statements are presented in EUR without cents. Due to the rounding of amounts, non-material discrepancies may be observed in the spreadsheets. The euro is also the functional currency of the parent company GEN and the GEN Group.

4.2.4. Basis of measurement

The GEN Group's financial statements have been prepared taking into account the historical cost, excluding financial instruments, which are stated at fair value or amortized cost.

4.2.5. Use of estimates and judgements

When preparing the consolidated interim financial statements, the Management provided estimates, assessments and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses. Regardless of the fact that the management of the controlling company during the preparation of items carefully checks all the factors which may have an impact on this, it is possible that the actual consequences of accruals are different from the estimates. Consequently, judgment must be used for accounting estimates, taking into account any changes in the business environment, new business events, additional information and experience.

Estimates and assumptions are present with at least the following judgments:

a) ESTIMATED USEFUL LIFE OF DEPRECIABLE ASSETS

In assessing the useful life of assets, the Group takes into account the expected physical usage, technical aging, economic aging and expected legal and other restrictions of use. The Group also checks the change of originally estimated useful of more important assets at least annually.

b) TEST OF IMPAIRMENT OF ASSETS

The Management checks individual assets at least annually, including goodwill and adjustment of claims or cash-generating units, whether there exist indicators for impairment, whereby the recoverable amount of non-financial assets is established based on the present value of future cash-flows from the cash-generating unit as well as setting a relevant discount rate.

c) IDENTIFICATION OF LEASE AGREEMENTS

In preparing the consolidated financial statements, the Management identifies lease contracts, determines their duration and the lease discount rates.

d) ASSESSMENT OF FAIR VALUE

Taking into consideration the Group's accounting policies and the required disclosures, in numerous cases fair value needs to be determined for the following:

- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss,
- derivative financial instruments.

All other items in the financial statements represent a purchase or amortized cost.

The fair values of individual asset groups for measurement or reporting purposes were determined using valuation methods that are appropriate in the given circumstances and for which sufficient data is available, in particular using appropriate market input data and minimum consumption of non-market input data.

Where additional clarifications are required in relation to assumptions for the determination of fair values, they are presented in the breakdowns to individual items of assets or liabilities of the group.

All assets and liabilities that are measured or disclosed at fair value in the financial statements are classified into a hierarchy based on three levels:

Level 1 – market prices from an active market for similar assets and liabilities,

Level 2 – assets which are not included in Level 1 and whose value can be directly or indirectly determined on the basis of comparable market data,

Level 3 – assets whose values cannot be obtained from market data.

e) POST-EMPLOYMENT EMPLOYEE BENEFITS

The present value of severance payments upon retirement is recorded in the context of obligations for post-employment benefits for employees. They are recognized based on actuarial calculation approved by the Management of the controlling company. The actuarial calculation is based on the assumptions and estimates valid at the time of the calculation, which, due to changes in the future, may differ from the actual assumptions that will apply at the time. This relates primarily to the determination of the discount rate, employee fluctuation estimates, mortality estimates and wage Due to the complexity of the actuarial calculation and the long-term nature of the item, liabilities for post-employment employee benefits are sensitive to changes in the stated estimates.

f) ASSESSMENT OF THE POSSIBILITY OF RECOGNIZING DEFERRED TAX ASSETS

The Group formulates deferred tax assets from forming temporary timing differences, tax credits and tax losses, if any. On the date of the financial statements, the Group verifies conditions for the recognition of deferred tax assets based on the likelihood of existence of future tax profit, which will enable covering of deductible tax differences. A deferred tax asset is recognized in the event of a probable future profit before tax, against which the deferred tax can be utilized in the future.

4.2.6. Changes in significant accounting policies – IFRS 16

On 1 January 2019, the GEN Group applied IFRS 16 for the first time. As of 1 January 2019, several amendments to the existing standards also apply (Section 4.4), which, however, do not have a material impact on the Group's financial statements.

Due to the transition method chosen by the Group in its first application of IFRS 16, the comparative information in these financial statements has not been restated in accordance with the requirements of the new standard.

The effect of the first application of IFRS 16 can be attributed primarily to the recognized right to use the leased assets and the obligations under this title.

IFRS 16 Leases was released by the IASB on 13 January 2016. In accordance with IFRS 16, the lessee recognizes the right to use an asset and the lease obligation. The right to use an asset is treated in a similar way to other non-financial assets and is amortized accordingly. A lease liability is initially measured at the present value of the rent payments paid during the lease term and discounted at the implicit interest rate if it can be determined immediately. If this rate cannot be determined immediately, the lessee must apply the assumed borrowing rate. As in IAS 17, which was replaced by IFRS 16, the lessor defines a lease as operating or financial depending on the nature of the lease. A lease is classified as a financial lease if it transfers nearly all the risks and rewards incidental to ownership of the asset. Otherwise, it is classified as an operating lease. In a financial lease, the lessor recognizes financial revenues over the lease term on a sample basis that reflects a constant periodic rate of return on the net investment. Payments made under operating leases are recognized by the lessor as revenue on a straight-line basis, or if the sample previously reflects a reduction in the benefits of using the asset, the lessor applies another systematic method.

In transitioning to IFRS 16, the Group decided to apply the modified retrospective approach with an effective date on 1 January 2019. Under this approach, an enterprise may apply the standard retrospectively and recognize the cumulative effect of the transition at the date of the first application of IFRS 16.

The Group reviewed and analyzed its concluded lease contracts with a duration of more than one year. Based on the lease costs and the duration of the lease contracts, the Group assessed the value of the right to use the leased assets and of the lease liabilities and recognized them in the statement of financial position as at 1 January 2019. The values of the right to use the leased assets and of the lease liabilities are estimated based on the discounting of future cash flows for the term of the lease. Cash flows are discounted at the interest rates applied by the Group in financing long-term loans, ranging between 1.7% and 2.8%. Depreciation costs are calculated using depreciation rates estimated on the basis of the remaining term of the leases, which range from 2 to 10 years.

As the Group has decided to apply the simplified modified option for leases classified as financial leases, the carrying amount of the leased asset and the lease liability upon transition equals to the carrying amount of the leased asset and the lease liability immediately before the date of transition.

Impact of adopting IFRS 16 on the statement of financial position, in EUR	01/01/2019	IFRS 16	31/12/2018
ASSETS			
Long-term assets	**1,227,627**	**1,227,627**	**244,781**
Tangible fixed assets	0	0	244,781
Right to use leased assets – buildings	982,846	982,846	0
Right to use leased assets – vehicles	244,781	244,781	0
Total assets	**1,227,627**	**1,227,627**	**244,781**
LIABILITIES			
Long-term liabilities	**654,030**	**497,076**	**156,954**
Liabilities from building leases	497,076	497,076	0
Liabilities from vehicle leases	156,954	0	156,954
Short-term liabilities	**580,656**	**485,770**	**94,886**
Liabilities from building leases	485,770	485,770	0
Liabilities from vehicle leases	94,886	0	94,886
Total	**1,234,686**	**982,846**	**251,840**

Liabilities from building leases total EUR 982,846.

Impact of adopting IFRS 16 on the profit and loss account, in EUR	2019 (IFRS 16)	2019 (IAS 17)	2018 (IAS 17)
Depreciation of rights to use buildings	616,480	0	0
Depreciation of rights to use vehicles	116,664	0	0
Lease costs	530,971	1,314,481	1,136,088
Profit or loss from operating activities	**1,264,115**	**1,314,481**	**1,136,088**
Financing expenses	25,800	0	0
Profit or loss before tax	**1,289,915**	**1,314,481**	**1,136,088**

4.3. Important accounting policies of the GEN Group

4.3.1. Foreign currency

Transactions denominated in a foreign currency are translated into the corresponding functional currency of the companies in the group at the exchange rate on the date of the transaction. Cash assets and liabilities denominated in a foreign currency at the end of the reporting period are converted into the functional currency at the then applicable exchange rate. Foreign exchange gains and losses are gains and losses between the amortized cost in functional currency at the beginning of the period, corrected for the amount of applicable interest and payments during the period and amortized costs in a foreign currency, converted at the foreign exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency at the exchange rate on the date when the fair value is determined. Foreign exchange gain and losses are recognized in the profit and loss account.

Assets and liabilities of the companies abroad are converted into EUR at the exchange rate effective at the end of the reporting period. Revenues and expenses of the companies abroad, except companies in hyperinflation economies, are converted to EUR at average exchange rates applicable in a given period. Exchange differences are recognized in other comprehensive income and reported under translation reserve within the equity item.

4.3.2. Financial assets

The Group's financial assets include cash and cash equivalents, trade receivables and loans and financial investments. Among financial investments, the Group discloses investments in affiliated companies and investments in financial instruments.

The Group initially recognizes loans and receivables from customers and deposits on the date of their creation. Other financial assets are initially recognized on the date of the exchange – or when the Group becomes a party in the contractual terms of the instrument. The Group derecognizes a financial asset when the contractual rights to cash flows from that asset are extinguished, or when the group transfers the rights to contractual cash flows from a financial asset on the basis of a transaction in which all the risks and rewards of ownership of the financial asset are transferred. Upon initial recognition, the Group's financial instruments are classified into one of the following groups: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss. The classification depends on the selected asset management model and whether the Group obtains contractual cash flows from financial instruments solely from principal payments and interest on the outstanding principal amount. With the exception of operating receivables, which do not include a significant component of financing, at the initial recognition, the Group measures the financial asset at fair value plus Trade receivables that do not contain a material financing component are measured at the transaction price determined in accordance with the provisions of IFRS 15.

Impairment of financial assets is defined in more detail in Section 4.3.9.

a) CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL INVESTMENTS – POLICY

Upon initial recognition, financial instruments are classified in one of the following groups:

- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income (hereinafter: FVTOCI),
- financial assets measured at fair value through profit or loss (hereinafter: FVTPL).

Financial investments are not reclassified after initial recognition unless the Group changes its business model for managing financial investments. In this case, all financial investments affected by the change are reclassified on the first day of the first reporting period after the change.

A financial asset is measured at amortized cost if it is not designated as a financial asset at FVTPL and if the following two conditions are met:

- the financial asset is held under a business model aimed at the possession of financial assets for the purpose of receiving contractual cash flows, and
- in accordance with the contractual terms of a financial asset, cash flows occur on specified dates, which are solely the repayment of the principal and the interest on the outstanding principal amount.

Upon the initial recognition of an investment in equity instruments not held for trading, the Group irrevocably decides to show subsequent changes in the fair value of the investment in other comprehensive income. This decision is taken individually for each investment.

All financial assets not designated as measured at amortized cost or FVTOCI, as described above, are measured at FVTPL. This includes all financial resources (see the explanation in Section 6). Upon initial recognition, the Group may irrevocably designate a financial asset otherwise eligible for measurement at amortized cost or at FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would have arisen otherwise.

b) FINANCIAL ASSETS – ASSESSMENT OF A BUSINESS MODEL: A POLICY

The Group assesses the objective of the business model on the basis of which a financial asset is managed at the portfolio level, as this best reflects the way of conducting business and providing information to management. The following information was taken into account:

- defined policies and objectives of the portfolio and the implementation of these policies in practice, including whether the management strategy focuses on generating revenue from contractual interest, maintaining a specific interest rate profile, matching the duration of financial assets with the duration of related liabilities or expected cash outflows, or creating cash flows through the sale of assets;
- the method of evaluating the performance of the portfolio and the method of reporting this to the management of the Group;
- the risks that affect the performance of the business model (and the financial assets managed in accordance with it) and the way in which these risks are managed;
- the manner in which the remuneration of the management responsible for these transactions is determined (e.g. whether the remuneration is based on the fair value of the assets managed or the amount of contractual cash flows received);
- the frequency, value and time of sales of financial assets in previous periods, the reasons for the sale and the expectations for future sales activities.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not treated as sales for this purpose and continue to be recognized by the Group.

Financial assets that are held for trading or that are managed and whose profitability is estimated on the basis of fair value are measured at FVTPL.

c) FINANCIAL ASSETS – AN ASSESSMENT OF WHETHER CONTRACTUAL CASH FLOWS ARE SOLELY PAYMENTS OF PRINCIPAL AND INTEREST

For the purpose of this assessment, the principal is defined as the fair value of a financial asset on initial recognition. Interest consists of compensation for the time value of money, credit risk associated with the outstanding principal amount in a given period, and for other basic and lending-related costs (e.g. liquidity risk and administrative costs) and profit margin.

In assessing whether the contractual cash flows exclusively repay the principal and interest, the Group complies with the contractual provisions of the instrument. This includes assessing whether the financial asset contains a contractual provision that could change the timing or amount of the contractual cash flows so as not to meet that condition. In this estimate, the Group shall take into account:

- contingent events that would change the amount and time of cash flows;
- provisions for which the contractual coupon interest rate may be changed, including elements of variable interest rates;
- advance payment and terms of the renewal, and
- provisions restricting the Group's cash-flows from certain assets (e.g. the provision that a financial asset may only be repaid in the event of default by the assets it is secured with).

The early repayment element fulfills the condition that the contractual cash flows must be solely payments of principal and interest if the early repayment amount mainly represents unpaid principal amounts and interest on the outstanding principal amount, which may include a reasonable additional compensation for early termination. In addition, in the case of financial assets obtained at a discount or premium in relation to a nominal contractual amount, the element that allows or requires early repayment in an amount most of which represents the nominal contractual amount and accrued (but unpaid) contractual interest (which may include a reasonable additional consideration for early termination of the contract) is deemed to fulfill this condition if the fair value of the element subject to early repayment is negligible upon initial recognition.

d) FINANCIAL ASSETS – SUBSEQUENT MEASUREMENT, GAINS AND LOSSES

Financial assets measured at FVTPL
These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in the profit and loss account.

Financial assets measured at amortized cost
These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced for impairment losses. Interest income, foreign exchange gains and losses, and impairment losses are recognized in the profit and loss account. Any gain or loss on derecognition is recognized in the profit and loss account.

Investments in debt securities measured at FVTOCI
These assets are subsequently measured at fair value. Interest income, calculated using the effective interest method, positive and negative exchange rate differences and impairment losses are recognized in the profit and loss account. Other net gains and losses are recognized in other comprehensive income. Gains and losses recognized in other comprehensive income are transferred to the profit and loss account upon derecognition.

Investments in equity instruments measured at FVTOCI
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss, unless the dividend clearly represents a return on part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never transferred to the profit and loss account.

e) FINANCIAL ASSETS – DERECOGNITION

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when the Group transfers the contractual cash flow rights from the financial asset based on a transaction in which almost all risks and rewards of ownership of the financial asset are transferred or in which it does not transfer nor retain almost all the risks and rewards of ownership and does not retain control of the financial asset.

The Group enters into transactions in which it transfers assets recognized in the statement of financial position but retains all or almost all of the risks and rewards of the financial asset. In this case, the transferred assets are not derecognized.

f) FINANCIAL LIABILITIES - CLASSIFICATION, SUBSEQUENT MEASUREMENT AND PROFITS AND LOSSES

Financial liabilities are classified as either measured at amortized cost or at FVTPL. A financial liability is classified as measured at amortized cost if it is classified as held for trading, is a derivative or is designated as such upon initial recognition. Financial liabilities measured at FVTPL are measured at fair value, and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in the profit and loss account.

For financial liabilities designated as hedging instruments, see Section 4.3.5.

Non-derivative financial liabilities consist of loans, overdrafts in bank accounts and business and other liabilities, other than liabilities to the state, liabilities to employees and advances.

The Group initially recognizes issued debt securities and subordinated liabilities on the date of their formation. All other financial liabilities are initially recognized on the trading date when the Group becomes a contractual party in relation to the instrument.

The Group derecognises a financial liability if the obligations set out in the contract are met, cancelled or expired.

g) FINANCIAL LIABILITIES – DERECOGNITION

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognizes a financial liability when its terms change and the cash flows of the changed liability are materially different, recognizing the new financial liability at fair value based on the changed terms. Upon derecognition of a financial liability, the difference between the carrying amount of the financial liability that has ceased and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

4.3.3. Offsetting

Financial assets and liabilities are offset and the amount is recognized in the statement of financial position if – and only if – the Group has an officially recognized right to offset the amounts recognized and intends to either settle the net amount or liquidate the asset and settle its liability.

4.3.4. Financial derivatives

The Group uses derivative financial instruments to hedge against market and foreign currency risks.

INTRODUCTION
BUSINESS REPORT
FINANCIAL REPORT OF THE COMPANY GEN
FINANCIAL REPORT OF THE GEN GROUP

For hedging against market risks due to changes in electricity and natural gas prices, the Group uses forward contracts and various trading financial instruments. In particular, currency futures are used to hedge against currency risks.

The Group uses non-standardized forward contracts, i.e. contracts for the purchase or sale of a selected underlying instrument with a due date in the future at the price agreed upon at the conclusion of the contract, both for protection against market risks from the prices of electricity and natural gas as for hedging against currency risks. Futures prices are determined depending on the underlying financial instrument. At the conclusion, the value of the contract is zero, since the execution price (agreed settlement price) is equal to the forward price. Excluding delivery costs, the value of a non-standardized forward contract at maturity is equal to the difference between the current price of the underlying instrument at maturity and the contractual forward price or the agreed settlement price. During the contract period, the forward price changes depending on market prices trends and remaining maturity of the forward contract.

Standardized forward contracts are binding agreements on the purchase or sale of a standard quantity of a precisely described standard quality instrument on a standardized day in the future (standard specification) at the price agreed in the present. Standardization is a necessary prerequisite for exchange trading. The main advantage of standardization is to minimize the transaction costs of trading them. Thus, it is not necessary for buyers and sellers to agree on individual elements of the contract at each conclusion of the deal, only to agree on the price of each futures contract. The transactions are concluded without the physical presence of goods. The standardized forward contract will only enter into effect upon its registration with a clearing house. Such a contract is freely transferable due to exchange trading, and its liquidity is conditioned by the volume of trading on the exchange, while non-standard forward contracts are illiquid because their transfer is effectively impossible. In the case of futures trading, both the purchases and the sales should deposit the security cover at the clearing house. The security coverage consists of an initial and flexible coverage.

Derivative financial instruments also include option contracts, which the Group classifies as financial assets or financial liabilities at fair value through profit or loss. Fair value is defined as the price that would be received for the sale of the asset or paid for the transfer of the obligation in a regular transaction between market participants on the measurement date. If the transaction price is not equal to the fair value at the measurement date, the difference in market assets is recognized in profit or loss or is subsequently released into profit or loss in accordance with the Group's policy.

Contracts for the purchase or sale of a non-financial asset (such as commodities) that can be settled net (either in cash or through the exchange of financial instruments) fall within the scope of IFRS 9 and are carried at fair value unless they have been entered into and are continue to be held for the purpose of receiving or delivering a non-financial asset in accordance with the Group's expected needs for purchase, sale or use – the so-called own-use exemption (IFRS 9.2.4). Purchase agreements that fall within the scope of IFRS 9 are treated as derivatives and are measured at market value through profit or loss, unless the Management can and does choose to account for hedging.

Contracts that give rise to a physical supply of goods and in which the Group has no net settlement practice and that are not entered into for trading, speculative or hedging purposes are accounted for as ordinary purchase or sale contracts, i.e. unrecognized unfulfilled contracts. Contracts that give rise to a physical supply of goods and where the Group has a net settlement practice and which have purposes other than the supply or purchase of electricity or natural gas are treated as derivatives and measured at fair value through profit or loss.

Derivative financial instruments are measured at fair value after initial recognition, and the changes in fair value are generally recognized in the profit and loss account.

Financial investments or financial liabilities measured at fair value through profit or loss are re-measured at fair value at least once a year when preparing annual financial statements. Gains or losses arising from changes in fair value are recognized in the profit and loss account.

ACCOUNTING FOR HEDGING

The Group meets the hedge accounting requirements for hedging against market risks related to changes in electricity and natural gas prices.

At the beginning of certain hedging relationships, the Group documents the risk management objective and the strategy for implementing hedging. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

At the commencement of the hedging relationship, the Group regularly assesses whether the hedging relationship meets the hedge accounting requirements. The assessment relates to expectations and is therefore focused only in the future. The hedge ratio only corresponds to the hedge accounting requirements if all of the following criteria are met:

- there is an economic relationship between the hedged item and the hedging instrument;
- the credit risk effect does not prevail in the changes in value resulting from that economic relationship; and
- the hedging coefficient in the hedging relationship is the same as that resulting from the extent of the hedged item, which the company actually protects, and includes the hedging instrument actually used by the company to hedge that amount against the hedged item risk.

At each reporting date, the Group measures the ineffectiveness of hedging, i.e. the extent to which changes in the fair value or cash flows of the hedging instrument are greater than or less than changes in the hedged item risk.

FAIR VALUE HEDGING

The Group calculates the hedging of fair value against the risk of price changes for standardized and non-standard forward contracts so that changes in the fair value of a derivative financial instrument are immediately recognized in profit or loss. Gains or losses on hedged items that are attributable to the hedged risk are adjusted to the carrying amount of the hedged item and recognized in profit or loss. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The initial carrying amount of the asset or liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the firm commitment attributable to risk hedging that was previously recognized in the statement of financial position.

The accounting policy for comparative information for 2018 is similar to that used for 2019.

4.3.5. Intangible and tangible fixed assets

Intangible assets and property, plant and equipment are long-term assets of companies that allow the activity to be carried out. At initial recognition, they are stated at their cost less accumulated amortization and accumulated impairment losses.

The purchase value of each asset comprises the purchase price and all costs that can be directly attributed to bringing the asset to its working condition. The purchase price is composed of borrowing costs in connection with the acquisition of the tangible fixed asset until its bringing to working condition.

For subsequent measured intangible assets and tangible fixed assets, the cost model is used. Later costs incurred that enable either the continuation of operation, increased security or lower operating costs relative to the originally estimated, increase in the cost of the asset.

The cost of replacing a part of an asset is assigned to the carrying amount of that asset if it is probable that the future economic benefits associated with the part of that asset will flow to the company and if the cost can be reliably measured. All other costs (e.g. regular maintenance) are recognised in profit or loss as expenses as soon as they are incurred.

Gains and losses that occur in disposal of property, plant and equipment are recognised as a difference between the net sales value and carrying amount of a disposed of asset and are recognised among other operating revenue or write-downs in value.

The assets are depreciated free of charge and are depreciated by the amount of charged depreciation of long-term deferred revenues disclosed in the liabilities.

At the end of the year, the companies check (only for significant assets) whether external or internal factors have arisen that would require revaluation.

Goodwill appears in consolidation and represents the excess sum of fair value of the transferred consideration on the day of takeover (acquired shares) and fair value of the previous acquirerer's share over net tangible assets and acquired commitments. Goodwill is recognized as an asset and reviewed at least annually for impairment. Any impairment is immediately recognized in total profit and loss account and is not subsequently reversed. Upon the disposal of the subsidiary, the relevant amount of goodwill is included in the determination of profit/loss on disposal and affects the profit or loss of the group.

The depreciation of intangible and tangible fixed assets is accounted for using the straight-line depreciation method, taking into account the defined useful life of each individual fixed asset.

Depreciation of the affiliated company NEK is provided for under the Intergovernmental Agreement on NEK up to the amount of necessary and approved investments and payments of long-term loans for such investments. such investments. Depreciation is methodologically calculated in such a way that with all tangible fixed assets, except with the nuclear reactor with refrigerating and ancillary systems (hereinafter: the nuclear reactor), the currently valid depreciation rates are taken into consideration. Amount of depreciation of the nuclear reactor is defined as the difference between fully approved depreciation costs and depreciation costs of other tangible fixed assets. The rate as well as the amount of depreciation for a nuclear reactor therefore vary year over year.

Depreciation class	% in 2019	% in 2018
Intangible fixed assets		
Property rights	5.56–33.33	5.56–33.33
Right of superficies	5.26–50.00	5.26–50.00
Concession rights	2.00–6.35	2.00–6.35
Built structures		
Buildings	1.00–10.00	1.00–10.00
Parts of built structures	6.00	6.00
Equipment		
Office equipment	10.00–20.00	10.00–20.00
Computer equipment	20.00–50.00	20.00–50.00
Production and other equipment	1.67–50.00	1.67–50.00
Vehicles	12.50–25.00	12.50–25.00
Exhibition equipment	14.28–33.33	14.28–33.33
Small tools	20.00	20.00
Other investments	**10.00**	**10.00**

Depreciation rates remained the same in 2019.

4.3.6. Investment property

Investment properties are properties owned by the Group so as to generate rentals or increase the value of the long-term investment or both. Investment property is stated at cost less accumulated amortization and accumulated impairment losses. Depreciation in the profit and loss is usually recognized using the straight-line method, the estimated useful life is 25 years.

4.3.7. Right to use leased assets

When concluding a contract, the Group assesses whether it is a lease contract or whether the contract contains a lease. A contract is a lease or contains a lease if it transfers the right to control the use of an identified asset for a specified period in exchange for compensation.

The Group determines the duration of the lease as the period during which the lease cannot be cancelled, including:

a) the period for which the possibility of extending the lease applies if it is fairly certain that the lessee will use this option; and

b) the period for which the possibility of termination of the lease applies if it is fairly certain that the lessee will not use this option

THE GROUP AS LESSOR

The Group applies a uniform recognition and measurement model to all leases, except for short-term leases and leases of low-value assets. The Group recognizes a lease liability for rent payments and the right to use the assets, which represents the right to use the leased assets.

i) Right to use assets

The Group recognizes a tangible fixed asset which represents a right of use at the commencement date of the lease (i.e. at the date when the leased asset is available for use).

The right to use the assets is measured at cost less any allowance for impairment and any impairment loss, with the cost adjusted each time the lease liability is remeasured. The cost of the right to use the assets includes the amount of the initial measurement of the lease liability, the initial direct costs and the rent payments made on or before the start of the lease, less any lease incentives received.

The right to use the assets is amortized on a straight-line basis over the lease term or the estimated useful life of the assets, whichever is shorter. The duration of the leases ranges between 2 and 10 years.

If at the end of the lease ownership of the leased asset is transferred onto the company or if the Group exercises the option to purchase, the depreciation is calculated based on the estimated useful life of the asset.

The Group also revalues the rights to use the assets for possible impairment.

ii) Lease obligation

At the commencement date of the lease, the Group recognizes a lease liability at the present value of all lease payments over the lease term that have not yet been paid by that date. Rents include fixed rents less any lease incentive receivables, acceptable rents that depend on an index or rate, and amounts expected to be paid by the lessee under residual value guarantees. Leases also include the fulfilment price of the purchase option if it is fairly certain that the Group will exercise that option and the payment of a cancellation penalty if the duration of the lease indicates that the Group will exercise the cancellation option.

Variable rents independent from an index or rate are recognized as an expense (unless the costs are incurred in producing inventories) in the period in which either the event or the condition that triggers the payment occurs.

In calculating the present value of rents, the Group uses the assumed borrowing interest rate effective on the commencement date of the lease, since the interest rate cannot be determined in a lease contract. After the commencement date of the lease, the amount of the lease liability is increased by accrued interest and reduced by all rent payments made. In addition, the carrying amount of the lease liability is reassessed in the event of an adjustment or change in the lease term, a change in the lease amount (e.g. a change in future lease amounts due to a change in the index or rate on the basis of which the rent is determined) or a change in the assessment of the purchase option for a leased asset.

The Group recognized a lease liability under other long-term and short-term financial liabilities.

iii) Short-term leases and leases of low-value assets

The Group applies the exemption from the recognition of short-term leases (i.e. for leases with a lease term of 12 months or less which do not include the purchase option). At the same time, the Group applies the exception to the recognition of low-value assets in connection with the lease of assets that are considered to be of small value. In the case of short-term leases and low-value asset leases, the Group recognizes the lease expense on a straight-line basis over the term of the lease.

THE GROUP AS LESSOR

Leases that do not involve a material transfer of the risks and rewards of ownership are classified as operating leases. Rental income is calculated on a straight-line basis over the term of the lease and is recognized as income in profit or loss. Initial direct costs are additional costs which are directly attributable to negotiating and arranging a lease, increase the carrying amount of the leased asset and are recognized over the lease term in the same way as rental income. Contingent rents are recognized as income in the period in which they are earned.

The direction of the right to use leased fixed assets is also described in Note 4.2.6.

4.3.8. Deferred taxes

The amounts of deferred taxes are based on the expected method of reimbursement or settlement of the carrying amount of assets and liabilities, taking into account

Deferred tax assets are recognized in the amount of possible available future taxable profit, against which the deferred asset can be utilized in the future. Deferred tax assets are recognized in the amount, for which it is no longer possible to enforce tax exemption in connection with the asset. They are reported as long-term receivables.

Deferred tax liabilities are recognized for all taxable temporary differences, unless the taxable temporary differences are a result of initial recognition of assets or liabilities in a business event other than a merger, division, exchange of shares and transfer of activities, and the business event at the time of its creation does not influence neither the accounting nor the taxable profit (tax loss).

4.3.9. Inventories and material costs

In inventories, the group shows the fuel and the material, which is quantified initially at the purchase price, consisting of the purchase price, import duties and direct purchase costs. Any discounts received are deducted from the purchase price.

The consumption of nuclear fuel is recorded by the method of purchase prices, since there are no new purchases for the utilization of inventories, while the use of other types of fuel and material is valued according to the average floating-price method.

For those inventories of spare parts that have not generated any turnover in the last six years (slow-moving spare parts where neither takeover nor issue was recorded), value adjustments of 100% of the value of this material are created.

4.3.10. Impairment of assets

At the reporting date, the Group assesses the value of a financial asset to determine whether there is objective evidence of asset impairment. A financial asset is considered impaired if there is objective evidence to show that the expected future cash flows arising from this assets have been decreased due to one or more events.

a) FINANCIAL ASSETS

Financial instruments and contract assets

The Group recognizes value adjustments due to expected credit losses (hereinafter: ECL) for:

- financial assets measured at amortized cost, and
- contractual funds.

The Group measures value adjustments for loss at an amount equal to the ECL over the entire life, i.e. the ECL arising from all possible events of default over the expected life of the financial instrument. The maximum period to be taken into account in assessing the ECL is the longest contractual period in which the Group is exposed to credit risk.

ECL is the probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash flow losses (i.e. differences between cash flows belonging to the group in accordance with the contract and the cash flows for which the group expects them to receive). ECLs are discounted based on the effective interest rate of a financial asset.

Financial assets with deteriorated credit quality

At each reporting date, the Group assesses whether financial assets carried at amortized cost have deteriorated credit quality. A financial asset has deteriorated credit quality when one or more events have occurred that have a negative impact on the estimated future cash flows of that financial asset.

Evidence that a financial asset has a deteriorated credit quality include data on the following circumstances:

- significant financial difficulties of the borrower or issuer;
- breach of the contract, such as non-payment or more than 90 days delay in payment;
- rescheduling of the loan or early repayment by the Group under conditions that the Group would otherwise not have accepted;
- the probability that the borrower will go into bankruptcy or financial reorganization;
- the disappearance of a functioning security market due to financial difficulties.

Disclosure of the value adjustment for ECLs in the statement of financial position

Value adjustments of financial assets measured at amortized cost are deducted from the gross carrying amount of financial assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has reasonable expectation that it will not be fully or partially reimbursed, i.e. in the case of a final court decision on the completed bankruptcy proceedings, the completed compulsory settlement procedure or the completed enforcement proceedings and in the case of financial assets for which the group does not expect any reimbursement. However, financial assets that are written off may still be the subject of recovery activities in accordance with the procedures of the debt recovery team.

b) NON-FINANCIAL ASSETS

At each reporting date, the carrying amount of material non-financial assets is checked in order to determine whether there are signs of impairment. If such signs exist, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from continued use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit).

The impairment of an asset or a cash-generating unit is recognised when its book value exceeds its recoverable value. Impairment is disclosed in the profit and loss account. A loss that is recognised for a cash-generating unit due to impairment is distributed so as to initially decrease the book value of the goodwill allocated to the cash- generating unit and then to other assets of the unit (group of units), i.e. proportionately to the book value of each asset in the unit.

In connection with other assets, the Group evaluates losses due to impairment in previous periods on the reporting date and thus establishes whether the loss has decreased or even ceased to exist. Loss due to impairment is reversed if there has been a change in the estimates on the basis of which the Group determines the recoverable amount of an asset. An impairment loss is reversed up to the amount where the increased book value of an asset no longer exceeds the book value that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in previous years.

4.3.11. Equity

Equity is defined by the amounts invested by the owners and the amounts that occurred in the course of business and belong to the owner. It can be reduced by loss or payouts of profits.

Total equity comprises of called-up capital, capital reserves, revenue reserves, reserve created evaluation at fair value, translation adjustment to equity, profit or loss brought forward and undistributed net profit.

The share capital is maintained in the valid local currency.

4.3.12. Provisions

Provisions are build up against liabilities which will occur, according to the projections based on binding past events, in the period longer than one year, and the value of which can be reliably assessed or measured.

The group of provisions is determined by discounting the expected future cash flows to the extent that they are pre-tax, indicating the existing estimates of the time value of money, and, where appropriate, the risks specific to the liability.

The companies establish reservations for future earnings and provisions for the increased maintenance costs because of high waters and government support for modernization of production facilities.

PROVISIONS FOR SEVERANCE AND JUBILEE PAYMENTS

In accordance with statutory regulations, collective agreement and internal rules, the Group is required to pay jubilee benefits to employees and severance pay upon their retirement, for which long-term provisions are made. There are no other pension-related liabilities. Provisions are made in the amount of estimated future payments for severance and jubilee benefits discounted at the end of the reporting period.

During the period under review, the Group created long-term provisions for jubilee benefits and severance payments upon retirement as the present value of future payments required to settle the obligations arising from the employee's service in the current and prior periods, taking into account the costs of severance payment upon retirement and the costs of all expected jubilee benefits up to the retirement date. Discount rate for the calculation of provisions in any company in the group is set up to 1.6%, except for NEK, which has under the Intergovernmental Agreement on NEK and under the assumption of termination of operations of NEK on 30 June 2043 used a discount rate, equal to return on ten-year bonds with AA credit rating in the eurozone.

These are recognized in the profit and loss account as labour and interest costs, while conversion of post-employment benefits or unrealized actuarial gains or losses from severance payments are recognized among other comprehensive income in equity.

4.3.13. Government grants

Government grants related to assets are initially recognized as deferred revenue if there is reasonable assurance that the support group will receive and will meet the conditions related thereto. Later, over the useful life of an individual asset, they are systematically recognized among other income in the profit and loss account.

Government grants received by the Group to cover costs are systematically recognized in the profit and loss account in the periods in which respective costs arise.

4.3.14. Contract assets and liabilities

A contract asset is the right to consideration in exchange for goods or services that are transferred to a customer. Among the assets from contracts, the Group records accrued revenues for the supplied goods and services to customers.

The obligation under the contract is the obligation to transfer goods or services to the buyer in exchange for the compensation received by the group from the buyer. Contractual liabilities are recognized as revenue when the Group fulfils its performance obligation under the contract.

4.3.15. Contingent assets and liabilities

Contingent assets and liabilities do not have a direct effect on the size and composition of assets and liabilities (statement of financial position) and income and expenses (Profit and loss account), but are a source of information on operations and potential future receivables and liabilities of companies.

4.3.16. Revenue

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognized when a control of goods or services is transferred to the buyer in an amount reflecting the consideration that the Group considers will be entitled to receive in return for these goods or services. Revenue from contracts with buyers is recognized at the fair value of the consideration received or receivable from this item, minus repayments and discounts, rebates and quantity discounts. Revenue arises when the buyer has taken control of the goods or benefits of the service provided.

The Group recognizes revenue from its principal activities in phases. In the case of a contract for the supply of electricity or natural gas, the seller transfers the control gradually, and at the same time the buyer acquires and uses the benefits of implementing the seller's obligation when it is carried out; the seller thus fulfils its performance obligation and recognizes the proceeds gradually by measuring progress towards the complete fulfilment of the performance obligation to supply electricity or natural gas by the method of outputs, using the method of charges calculated based on the quantities of electricity or natural gas supplied. The same method is used in the sale of small-scale power plants and services.

Revenue is recognized as:

- **Sales of goods**
  The sale of goods is recognized when the Group supplies the goods to the customer, the goods have been accepted by the customer and the recoverability of the related claims is reasonably guaranteed. From the time of sale, the Group no longer has control over the goods or services sold.
- **Sales of services**
  Sale of services is recognized in the accounting period in which the services were performed, considering the conclusion of the transaction, assessed based on the service actually supplied as a proportionate part of all the services rendered. In the case of long-term projects, the method of percentage of completion of works at the balance sheet date is used in recognizing revenue from services rendered. According to this method, revenue is recognized in the accounting period in which the services are performed.
- **Other operating revenue**
  This revenue comprises of calculation of capitalized own products and services, revenue from the reversal and drawing of other liabilities, received compensations, contractual penalties and similar rental income.

FINANCIAL INCOME

Financial income comprises revenue from interest on financial assets, income from the disposal of financial assets at fair value through other comprehensive income, recovered, written-off or impaired receivables, changes to the fair value of financial assets at fair value through profit or loss, positive exchange rates, and profits from risk hedging instruments recognized in the profit or loss account. Interest income is recognized when it is incurred using the effective interest rate method.

4.3.17. Expenses

OPERATING EXPENSES

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured.

Expenses consist of costs of goods, materials and services, labour costs and write-offs, and other operating expenses.

Costs of goods, materials and services are the original costs of goods, materials and services purchased.

Write-downs in value include amortisation/depreciation costs related to the consistent transfer of the value of depreciable property, plant and equipment and depreciable intangible assets. Write-downs in value also include losses from the marking down of fixed assets.

Labour costs are the original costs relating to accrued wages and other payments to employees in gross amounts, as well as to charges levied on this basis and which are not an integral part of gross amounts. Among the labour costs, provisions for jubilee benefits and severance payments upon retirement are also created.

Other operating expenses include a concession fee, environmental protection expenditure and other charges. Other operating expenses also include donations.

FINANCIAL EXPENSES

Financial expenses comprise borrowing costs (if they are not capitalized), exchange losses, changes in fair value of financial assets through profit and loss, loss due to impairments of values of financial assets, value adjustments and losses from hedging instruments, recognized in the profit and loss account. Borrowing costs are recognized in the profit and loss account using the applicable interest rate method. Financial expenses are also recognized from the recognition of investments using the equity method.

4.3.18. Taxes

Taxes include liabilities for accrued tax and deferred tax. Taxes are recorded in the profit and loss account, except in the part where they relate to the business combinations or items recognized directly in other comprehensive income. Current tax liabilities are based on taxable profit for the period. Taxable profit differs from the net profit recorded in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years, as well as items that are never taxable or deductible.

The liability of the accrual tax group is calculated using the tax rates that were valid for the reporting period.

Group companies are each individually liable to pay corporate income tax. Consolidated corporate income tax represents the sum of taxes of the Group companies.

4.3.19. Cash flow statement

The Group compiles the cash flow statement using the indirect method.

4.3.20. Financial risk management

In its operations, the GEN Group is exposed to strategic, financial and operational risks.

The prudent risk management at the level of the GEN Group follows the goal of maintaining a high quality of business and is key to achieving the set goals. The use of standard risk management methodologies and procedures enables high-quality risk assessment, timely response and reduction of the GEN Group's exposure to all the key risks. For disclosures, also see Section 6.2. Risk management.

4.3.21. Segment reporting

The Group does not disclose segments business in the annual report, as GEN, as the parent company of the GEN Group, does not have debt or equity instruments that would be traded on the public market.

4.4. Changes in accounting policies

The Group's accounting policies used in the preparation of consolidated financial statements are the same as those used in the preparation of consolidated financial statements for the previous financial year. This does not apply to the newly introduced and revised standards, which were adopted by the Group for the annual periods beginning on or after 1 January 2019, as presented below:

4.4.1. Changes to significant accounting policies and disclosures

- **IFRS 16 – Leases**
  IFRS 16 sets out guidelines for recognizing, measuring, presenting and disclosing leases by both parties to the lease: the lessee and the lessor. The new standard requires the lessee to recognize most of the lease contracts in its financial statements. Apart from some exceptions, lessees will be able to use a single accounting model for all lease contracts. No significant changes have been introduced for lease accounting on the part of the lessor. The impact of the change on the financial statements is shown in Section 4.2.6.
- **IFRS 9: Pre-Payment Functions with Negative Compensation (Supplement)**
  The amendments allow an enterprise to measure financial assets with prepaid characteristics that allow or require a contracting party either to pay or receive a reasonable remuneration for the early termination of the contract (in the sense that it is "negative compensation" from the asset holder's viewpoint) at amortized cost or fair value through other comprehensive income. The Management has noted that the change does not have a material impact on the financial statements.
- **IAS 28: Long-term investments in associates and joint ventures (amendments)**
  The amendments address the issue whether the measurement of long-term investment (in particular with regard to the requirements of impairment of long-term investments in affiliated companies and joint ventures, which are in effect part of a "clean investment" in the associate or joint venture), within IFRS 9, IAS 28, or a combination of both. The amendments clarify that a company must – in the recognition of long-term investments which are not measured according the equity method – use the provisions of IFRS 9 Financial Instruments before applying IAS 28. In applying IFRS 9, the company does not take into consideration any adjustments to the carrying amount of long-term interests, which normally arise when applying IAS 28. The Management has noted that the change does not have a material impact on the financial statements.
- **IFRIC 23: Uncertainty over corporate income tax treatments**
  The interpretation addresses uncertainty in the calculation of corporate income tax affecting the application of IAS 12. The interpretation introduces directions for calculating uncertain tax treatment separately or jointly; inspections of tax authority; use of relevant methods that reflects such uncertainties and at the same time takes into consideration the change of facts and circumstances. The Management has noted that the change does not have a material impact on the financial statements.
- **IAS 19: Plan amendment, curtailment or settlement (amendments)**
  The amendments to the accounting standard require companies to determine the cost of employee benefits and the net amount of interest in the remaining annual reporting period after the amendment, restriction or settlement of the employee benefits scheme based on updated

actuarial assumptions. At the same time, the amendments clarify the impact of compliance with changes, restrictions or settlement of the program on the requirements regarding the asset ceiling. The Management has noted that the change does not have a material impact on the financial statements.

4.4.2. Standards and amendments not yet adopted and not applied early by the Group

- **IFRS 3: Business Combinations (amendments)**
  The IASB has published amendments to the definition of operations (amendments to IFRS 3), the purpose of which is to eliminate uncertainty in determining whether an acquisition is a business or a group of assets. The amendments apply to business combinations for which the acquisition date is at the date of the first annual reporting period beginning on or after 1 January 2020, and to the acquisition of assets at the beginning of that period or later. Early application of the amendments is permitted. The European Union has not yet approved the amendments to the standard.

- **IFRS 17: Insurance Contracts**
  The standard applies to annual periods beginning on or after 1 January 2021, with the possibility of early application, provided that the entity also reports in accordance with IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. IFRS 17 Insurance Contracts sets out guidelines for the recognition, measurement, presentation and disclosure of insurance contracts. At the same time, the standard requires the use of similar principles in reinsurance contracts and investment contracts with possible discretionary participation. The purpose of the standard is to ensure that companies incorporate relevant information into the presentations in a manner that faithfully reflects these contracts. For users of financial statements, this information is used to assess the effect of contracts falling within the scope of IFRS 17 on the financial position, financial performance and cash flows of an enterprise. The standard has not yet been approved by the European Union.

- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets between the investor and its associated company or joint venture**
  The amendments address a known discrepancy between the requirements from IFRS 10 and those from IAS 28 in the treatment of sale or contribution of assets between the investor and his associated company or joint venture. The main consequence of the amendments is that an enterprise must recognize the full amount of profit or loss in the event that the transaction involves operations (whether located in a subsidiary or not). In the case of transactions with assets which the entity does not use in its operations, the enterprise recognizes only a portion of the gain or loss even if the assets are located in a subsidiary. The International Accounting Standards Board postponed the date of entry into force of the standard for an indefinite period pending the findings of a project for the clearing of funds under the equity method. The amendments to the standard have not yet been approved by the European Union.

- **Conceptual framework for IFRS**
  On 29 March 2018, the International Accounting Standards Board (IASB) published a revision of the conceptual framework for financial reporting standards. The conceptual framework sets out a comprehensive set of concepts for financial reporting, setting standards, guidance for preparers of consistent accounting policies, and to facilitate the understanding and interpretation of the standards. The IASB also published a separate accompanying document "Amendments to References to the Conceptual Framework for IFRS", which presented the amendments to the relevant standards and serves the purpose of updating the references to the revised conceptual framework. The Board's objective is to provide support in the transition to the revised conceptual framework to enterprises adopting their accounting policies based on the guidance of the basic framework when a particular transaction is not addressed by any of the IFRS standards. Preparers adopting their accounting policies based on the conceptual framework are subject to the revised conceptual framework for annual periods beginning on or after 1 January 2020.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of the term "material" (amendments)**
  The amendments apply to annual periods beginning on or after 1 January 2020. Early application of the amendments is permitted. The amendments clarify the definition of the term "material" and the manner in which it is to be used. According to the new definition, "information is material if it can reasonably be expected that its omission, misstatement or concealment will affect the general decisions of primary users of financial statements who make decisions based on financial statements that provide the financial information of a particular enterprise". In addition, the Committee clarified the interpretations accompanying the definition. The amendments also ensure that the definition of "material" is consistent with

all IFRS. The GEN Group does not expect the amendments to have a significant effect on its consolidated financial statements.

- **Reference interest rate reform – IFRS 9, IAS 39 and IFRS 7 (amendments)**
  The amendments apply to annual periods beginning on or after 1 January 2020 and are to be applied retrospectively. Early application of the amendments is permitted. In September 2019, as part of the final phase of the response to the effects of the Interbank Offered Rates (IBOR) reform on corporate financial reporting, the International Accounting Standards Board (IASB) published amendments to IFRS 9, IAS 39 and IFRS 7. In the second phase of the project, the Board will focus on matters that could affect financial reporting when an enterprise replaces an existing reference interest rate with a risk-free interest rate. The amendments address matters affecting financial reporting in the period prior to the replacement of an existing reference interest rate with a replacement interest rate and its implications for specific accounting hedging requirements of IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, whereby an enterprise must take into account the results of the analysis of future projected operations. Enterprises may continue to use temporary relief to recognize all hedges directly affected by the reference interest rate reform and continue to recognize accounting hedges during the period of uncertainty prior to replacing an existing reference interest rate with an alternative risk-free interest rate. Amendments to IFRS 7 Financial Instruments: Disclosures related to additional uncertainty disclosures arising from the reference interest rate reform.

- **IAS 1 Presentation of Financial Statements: Classification of liabilities as short-term or non-current (amendments)**
  The amendments apply to annual periods beginning on or after 1 January 2022. Early application of the amendments is permitted. The purpose of the amendments is to assist enterprises in deciding whether to classify debt and other liabilities with an uncertain settlement date as short-term or non-current liabilities in the statement of financial position, thus ensuring greater consistency in compliance with the requirements. The amendments affect the presentation of liabilities in the statement of financial position, but do not change the existing requirements related to the measurement or recognition period of assets, liabilities, income or expenses or information that an enterprise discloses about these items. The amendments also clarify the requirements related to the classification of debts that an enterprise can settle by issuing its own equity instruments.
  The European Union has not yet approved the amendments to the standard.

The GEN Group is reviewing the impact of the standards and amendments and will take them into account upon their application and implementation.

4.4.3. Supplementation of standards and interpretations adopted in the 2015-2017 period

In the 2015–2017 period, the International Accounting Standards Board (IASB) announced a series of annual improvements to the IFRS standards, which represents a set of amendments and changes to standards. The amendments apply to annual periods beginning on or after 1 January 2019. Early application of the amendments is permitted. The GEN Group estimates that the amendments and interpretations of the standards adopted in the 2015–2017 period did not affect the changes in its financial statements.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements**
  The amendments to IFRS 3 clarify that an enterprise shall remeasure all previously held interests in a business organized as a joint arrangement upon acquiring control over that business. The amendments to IFRS 11 clarify that when acquiring shared control over a business organized as a joint arrangement, the company need not remeasure all previously held interests in that business.

- **IAS 12 Income Taxes**
  The amendments to the standard explain that the company has to recognize the tax consequences of the payments of financial instruments that are classified as equity in the same item as past transactions or events that generated accumulated profit.

- **IAS 23 Borrowing Costs**
  The amendments to the accounting standard clarify Paragraph 14 of the standard, which states that when an asset qualifies for its intended use or sale and the part of the loan relating to that asset is outstanding, the enterprise must include that loan among the assets from the loans received.

5. Notes on and disclosures of items in the financial statements of the GEN Group

5.1. Intangible assets

Changes in intangible assets, in EUR	Long-term property rights	Goodwill	Other intangible assets	Long-term deferred costs of development	Total
ORIGINAL COST					
As at 31/12/2018	**21,141,624**	**29,238,153**	**9,006,650**	**18,651**	**59,405,078**
Acquisitions	665,837	0	1,662,979	2,937	**2,331,753**
Transfers	8,359	0	27	0	**8,386**
Disposals	-10,975	0	-1,023	0	**-11,998**
Revaluation	0	0	2,045	0	**2,045**
As at 31/12/2019	**21,804,845**	**29,238,153**	**10,670,678**	**21,588**	**61,735,264**
ACCUMULATED DEPRECIATION					
As at 31/12/2018	**8,100,356**	**0**	**6,571,073**	**0**	**14,671,429**
Depreciation	583,817	0	698,173	0	**1,281,990**
Transfers	0	0	0	0	**0**
Disposals	-10,975	0	0	0	**-10,975**
Revaluation	0	0	2,825	0	**2,825**
As at 31/12/2019	**8,673,198**	**0**	**7,272,071**	**0**	**15,945,269**
NET BOOK VALUE					
As at 31/12/2018	**13,041,268**	**29,238,153**	**2,435,577**	**18,651**	**44,733,649**
As at 31/12/2019	**13,131,647**	**29,238,153**	**3,398,607**	**21,588**	**45,789,995**
ORIGINAL COST					
As at 31/12/2017	**19,257,929**	**29,238,153**	**9,077,291**	**20,078**	**57,593,451**
Acquisitions	859,918	0	459,341	2,937	**1,322,196**
Transfers	1,047,638	0	-2,100	0	**1,045,538**
Disposals	-23,861	0	-526,242	-4,364	**-554,467**
Revaluation	0	0	-1,640	0	**-1,640**
As at 31/12/2018	**21,141,624**	**29,238,153**	**9,006,650**	**18,651**	**59,405,078**
ACCUMULATED DEPRECIATION					
As at 31/12/2017	**7,564,560**	**0**	**6,055,521**	**0**	**13,620,081**
Depreciation	559,657	0	807,347	0	**1,367,004**
Transfers	0	0	18,301	0	**18,301**
Disposals	-23,861	0	-320,941	0	**-344,802**
Revaluation	0	0	10,845	0	**10,845**
As at 31/12/2018	**8,100,356**	**0**	**6,571,073**	**0**	**14,671,429**
NET BOOK VALUE					
As at 31/12/2017	**11,693,369**	**29,238,153**	**3,021,770**	**20,078**	**43,973,370**
As at 31/12/2018	**13,041,268**	**29,238,153**	**2,435,577**	**18,651**	**44,733,649**

Goodwill represents the surplus of the sum of the fair value of the transferred consideration at the acquisition date (acquired shares) and the fair value of the previous acquirer's share above the net amounts of identifiable assets and liabilities assumed. It relates almost entirely, i.e. in the amount of EUR 29,007,234, to the effects of the business combination of GEN-I, for which an impairment test was performed on 31 December 2019.

The company GEN-I, from which the goodwill derives, is considered as a cash-generating unit, and in determining its value, a return-based valuation method is used, namely the discounted cash flow method. The valuation used cash flow projections for future years, taking into account a 9.5% discount rate and an average annual growth rate of 1%.

Because the recoverable amount of a cash-generating unit exceeds the carrying amount of the cash-generating unit, including goodwill, goodwill need not be impaired.

In 2019, the GEN Group companies made investments in the amount of 1,657,666, mainly related to software intended for information support of joint services and trading, support for the sale of electricity to consumers, and server support.

The disclosed intangible assets are the property of the Group and are free and clear of any encumbrances.

5.2. Tangible fixed assets

Tangible fixed assets, in EUR	Land	Buildings	Production plants and machinery	Other equipment and small tools	Assets under con-struction/in production	Advances	Total
ORIGINAL COST							
As at 31/12/2018	**22,724,286**	**481,574,178**	**1,091,248,776**	**48,274,263**	**50,858,996**	**2,087,768**	**1,696,768,267**
Transition to IFRS 16	0	0	0	-1,085,014	0	0	-1,085,014
As at 01/01/2019	**22,724,286**	**481,574,178**	**1,091,248,776**	**47,189,249**	**50,858,996**	**2,087,768**	**1,695,683,253**
Acquisitions	0	8,555	4,866	162,448	53,499,630	7,088,724	60,764,223
Activations	2,069,588	962,101	31,191,543	4,253,544	-36,407,188	-2,069,588	0
Disposals	-44,283	-417,516	-863,197	-541,578	-95,800	-2,214,625	-4,176,999
Transfers, reclassif.	-13,650	-28,428	12,036,463	-165,177	-11,490,884	0	338,324
Revaluation	0	0	0	67	0	0	67
As at 31/12/2019	**24,735,941**	**482,098,890**	**1,133,618,451**	**50,898,553**	**56,364,754**	**4,892,279**	**1,752,608,868**
ACCUMULATED DEPRECIATION							
As at 31/12/2018	**0**	**225,094,035**	**748,087,613**	**40,245,239**	**0**	**0**	**1,013,426,887**
Transition to IFRS 16	0	0	0	-840,233	0	0	-840,233
As at 01/01/2019	**0**	**225,094,035**	**748,087,613**	**39,405,006**	**0**	**0**	**1,012,586,654**
Depreciation	0	8,872,651	23,339,149	2,986,018	0	0	35,197,818
Disposals	-14,637	-267,049	-844,332	-519,124	0	0	-1,645,142
Transfers, reclassif.	0	-28,428	0	-161,566	0	0	-189,994
Revaluation	14,637	148,509	0	32	0	0	163,178
As at 31/12/2019	**0**	**233,819,718**	**770,582,430**	**41,710,366**	**0**	**0**	**1,046,112,514**
NET BOOK VALUE							
As at 01/01/2019	**22,724,286**	**256,480,143**	**343,161,163**	**7,784,243**	**50,858,996**	**2,087,768**	**683,096,599**
As at 31/12/2019	**24,735,941**	**248,279,172**	**363,036,021**	**9,188,187**	**56,364,754**	**4,892,279**	**706,496,354**
ORIGINAL COST							
As at 31/12/2017	**22,701,592**	**471,815,571**	**1,027,359,635**	**45,963,684**	**72,774,195**	**891,211**	**1,641,505,888**
Acquisitions	11,000	162,925	79,659	454,794	55,964,563	2,070,310	58,743,251
Activations	19,414	9,772,413	65,161,431	1,017,820	-75,971,078	0	0
Disposals	-7,720	-207,990	-1,351,949	-441,589	0	-873,753	-2,883,001
Transfers, reclassif.	0	31,259	0	1,281,344	-1,910,865	0	-598,262
Revaluation	0	0	0	-1,790	2,181	0	391
As at 31/12/2018	**22,724,286**	**481,574,178**	**1,091,248,776**	**48,274,263**	**50,858,996**	**2,087,768**	**1,696,768,267**
ACCUMULATED DEPRECIATION							
As at 31/12/2017	**0**	**216,628,146**	**729,224,201**	**37,537,335**	**0**	**0**	**983,389,682**
Depreciation	0	8,617,193	19,757,352	3,097,051	0	0	31,471,596
Disposals	0	-151,304	-893,940	-389,278	0	0	-1,434,522
Transfers, reclassif.	0	0	0	131	0	0	131
As at 31/12/2018	**0**	**225,094,035**	**748,087,613**	**40,245,239**	**0**	**0**	**1,013,426,887**
NET BOOK VALUE							
As at 31/12/2017	**22,701,592**	**255,187,425**	**298,135,434**	**8,426,349**	**72,774,195**	**891,211**	**658,116,206**
As at 31/12/2018	**22,724,286**	**256,480,143**	**343,161,163**	**8,029,024**	**50,858,996**	**2,087,768**	**683,341,380**

Acquisitions in 2019 in the GEN Group companies mainly related to investments and capital expenditures, such as:

- updates of systems that ensure safe and stable operation of NEK, and mainly relate to: modifications of additional water source and injection pump, alternative cooling for the RCS and RB, Phase 2 PNV – BB1 and other modifications; investments in progress, which represent investments in dry storage for spent nuclear fuel, OPC, and others. Such investments in the GEN Group totalled EUR 34,584,030 in the period under review;
- tangible fixed assets under construction and manufacture of the company TEB, amounting to EUR 8,520,314 for the project to replace gas turbine units PB1–3, implementation of the first phase – 1B, heating system energy retrofit, acquisition of equipment in the computer and communication centre, and advances for fixed assets for the project of replace gas turbine blocks PB1–3, implementation of the first phase – 1B in the amount of EUR 4,876,657;
- on the purchase of land in Ljubljana, vehicles, computer equipment, furniture and other equipment and investments in foreign fixed assets in the total amount of EUR 2,592,452.

In the process of verifying indicators for the purpose of impairment of assets, the Group found that they do not exist and that the book value of tangible assets does not exceed the fair value and value in the use of these assets.

Funds are free of burdens and are not transferred in financial lease.

5.3. Investment property

Investment property, in EUR	31/12/2018	Acquisitions	Revaluation	Depreciation	31/12/2019
Original cost	2,056,085	0	30	0	2,056,115
Accumulated depreciation	82,629	0	0	66,103	148,732
Present value	1,973,456	0	30	-66,103	1,907,383

Investment property, in EUR	31/12/2017	Acquisitions	Reclassifications	Depreciation	31/12/2018
Original cost	1,652,591	403,494	0	0	2,056,085
Accumulated depreciation	16,526	0	0	66,103	82,629
Present value	1,636,065	403,494	0	-66,103	1,973,456

In 2018, GEN-I Sofia acquired an additional investment property in Bulgaria as part of bankruptcy proceedings of a Bulgarian electricity supplier.

5.4. Right-of-use assets

Assets representing the right of use, in EUR	Lease of buildings	Lease of equipment	Total
ORIGINAL COST			
As at 31/12/2018	**0**	**0**	**0**
Change due to the application of IFRS 16	982,846	1,085,011	2,067,857
As at 01/01/2019	**982,846**	**1,085,014**	**2,067,860**
Acquisitions	2,187,925	0	2,187,925
Disposals	0	-260,226	-260,226
As at 31/12/2019	**3,170,771**	**824,788**	**3,995,559**
ACCUMULATED DEPRECIATION			
As at 31/12/2018	**0**	**0**	**0**
Change due to the application of IFRS 16	0	840,233	840,233
As at 01/01/2019	**0**	**840,233**	**840,233**
Depreciation	616,480	116,664	733,144
Disposals	0	-248,151	-248,151
As at As at 31/12/2019	**616,480**	**708,746**	**1,325,226**
NET BOOK VALUE			
As at 01/01/2019	**982,846**	**244,781**	**1,227,627**
As at 31/12/2019	**2,554,291**	**116,042**	**2,670,333**

Payments of the lessee's obligations under the lease of assets are not secured. The Group applies an exception provided by the standard for the recognition of liabilities under short-term leases and leases of low-value assets. Rent amounts are contractually defined and are fixed.

5.5. Stocks and interests in affiliated companies

Shares and interests in affiliated companies, in EUR	31/12/2019	31/12/2018
SRESA d.o.o.	23,469	25,543
HSE invest d.o.o.	0	130,882
Total	**23,469**	**156,425**

In accordance with the equity method, the GEN Group added the corresponding share of losses generated in 2019 to investments in affiliated companies in the amount of EUR 2,075 and sold the share of HSE Invest for the amount of the book value, which was EUR 80,000.

5.6. Other long-term financial investments and loans

Other long-term investments and loans in 2019, in EUR	31/12/2018	Acquisition	Disposal/ transfer	Revaluation	31/12/2019
Financial equity instruments	**3,174,525**	**0**	**-75,692**	**284,268**	**3,383,101**
Zavarovalnica Triglav d.d.	2,871,106	0	0	284,268	3,155,374
Geoplin d.o.o.	0	0	0	0	0
Other equity instruments	303,419	0	-75,692	0	227,727
Other long-term financial investments	**176,062**	**10,589,233**	**-8,046,258**	**0**	**2,719,037**
Zavarovalnica Triglav d.d. – life insurance	156,723	40,155			196,878
Loans granted to employees	19,339	1,256	-6,795	0	13,800
Loans granted to other legal entities	0	10,547,822	-8,039,463	0	2,508,359
Total	**3,350,587**	**10,589,233**	**-8,121,950**	**284,268**	**6,102,138**

Other long-term investments and loans in 2018, in EUR	31/12/2017	Acquisition	Disposal/ transfer	Revaluation	31/12/2018
Financial equity instruments	**5,084,261**	**0**	**-2,114,556**	**204,820**	**3,174,525**
Zavarovalnica Triglav d.d.	2,738,448	0		132,658	2,871,106
Geoplin d.o.o.	2,114,556	0	-2,114,556	0	0
Other equity instruments	231,257	0	0	72,162	303,419
Other long-term financial investments	**2,820,209**	**8,564,675**	**-11,208,823**	**0**	**176,062**
Zavarovalnica Triglav d.d. – life insurance	118,519	38,204	0	0	156,723
Financial leases for solar power plants and heat pumps	1,673,546	0	-1,673,546	0	0
Loans granted to employees	26,289	0	-6,951	0	19,339
Loans granted to other legal entities	1,001,855	8,526,471	-9,528,326	0	0
Total	**7,904,470**	**8,564,675**	**-13,323,379**	**204,820**	**3,350,587**

Financial equity instruments represent investments in stocks and interests in companies. They are measured at fair value through other comprehensive income. In 2019, the effect of revaluation at fair value as at 31 December 2019 amounted to EUR 284,268.

The decrease in long-term financial investments from disposals or transfers in 2019 is mainly represented by the sale of the investment by Gorenjska banka d.d., whereby the investment was already revalued at fair value in 2018.

Loans to other legal entities represent long-term deposits with banks in the country, which are assessed to be low-risk, given the diversification of investments and the ongoing monitoring of market conditions.

5.7. Long-term operating receivables

Long-term operating receivables, in EUR	31/12/2019	31/12/2018
Trade receivables	7,482,498	3,954,830
Receivables for building plot	409,471	450,101
Total	**7,891,969**	**4,404,931**

Trade receivables represent receivables from the sale of small-scale solar power plants. Receivables for building land represent receivables arising from the repayment of the overpaid contribution for the building land of the municipality of Radeče.

5.8. Deferred taxes

Deferred tax assets in 2019, in EUR	31/12/2018	Disclosed under profit or loss	Disclosed under other comprehensive income	31/12/2019
Intangible, tangible fixed assets	173,815	15,751	0	189,566
Financial instruments	86,540	0	88,263	174,803
Operating receivables	958,208	-305,120	0	653,088
Provisions for severance and jubilee payments	584,242	17,781	37,701	639,724
Unused tax breaks	1,431,560	-546,415	0	885,145
Total	**3,234,365**	**-818,003**	**125,964**	**2,542,326**

Deferred taxes are accounted for based on the uncertainty of the time-defined realization of a receivable and are calculated using a 19% tax rate when a certain part of the liabilities is expected to be settled and deferred tax assets settled as a result.

Deferred tax assets that impact the profit or loss are recognized in the profit and loss account.

Long-term deferred tax liabilities, which totalled EUR 6,597,927 as at 31 December 2019 (EUR 5,966,185 as at 31 December 2018), result from the transition to the IFRS in 2016, specifically due to reversal of provisions from NEK's risky contracts because the company NEK is recognized in the consolidated financial statements as a joint operation in the form of a shared activity.

Due to incompatibility, deferred tax assets and deferred tax liabilities are not offset.

5.9. Inventories

Inventories, in EUR	31/12/2019	31/12/2018
Production fuels	21,730,942	30,464,137
Spare parts	13,176,555	13,827,985
Other material	3,551,480	3,547,720
Total	**38,458,977**	**47,839,842**

The largest proportion of total inventories as at 31 December 2019 are inventories held by the company NEK, specifically nuclear fuel inventories, at EUR 21,274,097, inventories of spare parts, at EUR 12,241,853, and inventories of other materials used for the nuclear power plant's operation. On account of certain specifics, it is very difficult to estimate the net realizable value of the inventories of spare parts and other materials since there are only two other similar power plants in operation worldwide that install similar components and spare parts for maintenance purposes. It is therefore maintained that there is no market demand for such inventories and that the costs of selling would exceed the proceeds of the sale. The useful value of the inventories of spare parts, particularly those that belong to the safety category, is essential to ensuring the power plant's safe operation.

The accounting policy for creating a value adjustment for non-performing spare parts allows the book value to reflect no less than possible the real value of inventories.

In 2019, adjustments in the amount of EUR 601,488 were made to the value of inventories of slow-moving spare parts, that is, those spare parts that did not generate turnover for the needs of the nuclear power plant for 6 or more years. The amount of the inventory value adjustment totalling EUR 610,384 refers to the write-off of obsolete, unusable spare parts and other materials. There were no significant inventory surpluses or deficits in material supplies in 2019.

All inventories are reported as short-term assets in accordance with the applicable regulations. Stocks of spare parts and nuclear fuel have a long useful life of 801 days.

The book value of inventories is not pledged as a liability guarantee.

5.10. Short-term financial investments

Short-term financial investments, in EUR	31/12/2019	31/12/2018
Short-term financial investments other than loans	**195,164**	**6,239,433**
Other shares and interests held for trading	195,164	195,164
Derivative financial instruments	0	5,223,786
Options from operations	0	781,073
Other	0	39,410
Short-term loans	**98,101,059**	**97,482,269**
Short-term bank deposits	98,101,059	97,482,269
Total	**98,296,223**	**103,721,702**

Agreements signed with financial institutions in Slovenia form the basis for recognizing investments in short-term deposits. The high balance of deposits is the result of slower dynamics of technological upgrade investments and slower implementation of other activities in recent years. These funds are earmarked entirely for technological upgrade investments in accordance with the investment plans adopted by the GEN Group companies.

5.11. Short-term operating receivables

Short-term operating receivables, in EUR	31/12/2019	31/12/2018
Receivables prior to revaluation	89,829,662	117,925,920
Value adjustment of receivables	-8,222,779	-9,129,113
Interest receivables	336,625	469,481
Other receivables associated with financial effects	9,533	716,013
Other operating receivables	37,960,771	38,418,576
Receivables from operations for third-party account	975,215	740,742
Total	**120,889,027**	**149,141,619**

Receivables from customers represent receivables from the sale of electricity and system services on the basis of concluded annual contracts. As a rule, they are secured by blank drafts with accompanying authorizations or by bank guarantees.

Other short-term operating receivables mainly consist of deductible VAT in the amount of EUR 33,470,047 (EUR 28,529,568 as at 31 December 2018) and receivables for advances and securities given by the Group for the purchase of electricity and natural gas in the amount of EUR 3,212,940 (EUR 8,054,791 as at 31 December 2018).

Receivables are not pledged.

5.12. Contract assets

Assets from contracts with customers, amounting to a total of EUR 44,553,041 (EUR 35,642,336 as at 31 December 2018) represent mainly short-term uncharged revenues for the electricity and natural gas sold in 2019, for which invoices will be issued to buyers in early 2020 in accordance with the provisions of the concluded contracts.

Funds from customer contracts were not impaired.

5.13. Cash and cash equivalents

Cash and cash equivalents, in EUR	31/12/2019	31/12/2018
Cash at bank	52,389,221	51,050,806
Call deposits	22,145,737	21,723,402
Cash on hand	2,157	461
Total	**74,537,115**	**72,774,668**

5.14. Other short-term assets

Other short-term assets, in EUR	31/12/2019	31/12/2018
Short-term deferred costs or expenses	8,049,967	5,817,629
Total	**8,049,967**	**5,817,629**

The majority of short-term deferred costs or expenses are deferred expenses for the purchase of electricity and natural gas in the amount of EUR 6,325,921, which relate to the first quarter of 2020 and deferred costs of insurance premiums, membership fees and other costs related to the operations of the GEN Group companies.

5.15. Equity

Equity structure, in EUR	31/12/2019	31/12/2018
Equity attributable to owners of the parent company	**720,322,953**	**680,162,262**
Called-up capital	250,000,000	250,000,000
Capital reserves	134,682,435	134,682,435
Legal reserves	12,644,318	11,434,370
Other revenue reserves	110,677,001	86,296,924
Reserves from valuation at fair value	443,988	1,122,981
Retained profit or loss	212,614,086	197,586,290
Translation adjustment to equity	-738,875	-960,738
Equity of the owners of non-controlling interest	**139,512,992**	**138,532,630**
Total	**859,835,945**	**818,694,892**

Called-up capital, in the amount of EUR 250,000,000, is entirely the share capital of the controlling company.

Capital reserves comprise:

- capital reserves, totalling EUR 134,682,435 as at 31 December 2019 (same balance as at 31 December 2018), are almost entirely capital reserves of the controlling company arising from paid-in capital surpluses for the GEN Group companies;
- revenue reserves as at 31 December 2019 total EUR 123,321,319 (EUR 97,731,294 as at 31 December 2018) and comprise:
  - legal reserves of the Group companies totalling EUR 12,644,318, which increased in 2019 by EUR 1,209,948 on account of retained profit in the reporting period (in 2018, they increased by EUR 429,016),
  - other revenue reserves in the amount of EUR 110,677,001, which increased – on account of redistribution of a portion of profit from previous years based on resolutions made by bodies of the Group companies – by EUR 24,380,077 in 2019 (by EUR 19,409,327 in 2018);
- fair value reserves, amounting to EUR 443,988 as at 31 December 2019, which mainly include movements in 2019 due to the recognition of actuarial gains and losses and the valuation of financial investments at fair value, including deferred taxes, which decreased by EUR 690,148 (in 2018, they increased by EUR 191,145).

Retained earnings, in the amount of EUR 212,614,086, has changed compared to the previous year, when it totalled EUR 197,586,290, mainly for these reasons:

- paid-out profit share, totalling EUR 7,000,000 in 2019 (EUR 6,000,000 in 2018),

- addition of generated net profit from 2019, which belongs to the owners of the controlling company, totalling EUR 47,313,329 (EUR 38,904,357 in 2018),
- allocation of a portion of retained profit in 2019, totalling EUR 25,590,025 (EUR 19,838,343 in 2018), to other revenue reserves based on decisions made by bodies of the GEN Group companies, in the amount of EUR 24,380,077 (allocation to other reserves in the amount of EUR 19,409,327 in 2018) and to legal reserves in the amount of EUR 1,209,948 (EUR 429,016 in 2018).

Foreign exchange differences arising on the translation of the financial statements of subsidiaries abroad are recognized as a translation reserve in other comprehensive income.

5.16. Provisions

Provisions, in EUR	31/12/2018	Formation	Decrease	Transfer to government grants	31/12/2019
Provisions for jubilee benefits, severance payments and other disbursements to employees	9,462,840	1,848,926	-526,704	0	10,785,062
Provisions for maintenance, decommissioning and disposal of equipment	104,656	0	0	0	104,656
Total	**9,567,496**	**1,848,926**	**-526,704**	**0**	**10,889,718**

Estimated provisions for jubilee benefits, severance payments and other disbursements to employees are based on an actuarial calculation taking into account the assumption of employee turnover of up to 4.1%, a discount rate of up to 1.6%, and wage growth of up to 3%.

5.17. Financial liabilities

Long-term financial liabilities, in EUR	31/12/2019	31/12/2018
Long-term financial liabilities to banks	79,789,735	64,822,867
Long-term financial liabilities from bonds	34,000,000	34,000,000
Long-term financial liabilities from interest purchase options	0	23,015,289
Other long-term financial liabilities	1,923,226	1,775,787
Total	**115,712,961**	**123,613,943**

Short-term financial liabilities, in EUR	31/12/2019	31/12/2018
Short-term financial liabilities to banks	11,017,193	11,022,142
Short-term financial liabilities from bonds	430,405	5,700,000
Commercial papers issued	24,864,768	24,867,778
Short-term financial liabilities from interest purchase options	24,203,894	724,788
Other short-term financial liabilities	3,429,273	781,026
Total	**63,945,533**	**43,095,734**

5.17.1. Liabilities to banks

On the reporting date, the GEN Group had the following liabilities to banks in the amount of EUR 90,806,928:

- long-term loan taken out with a Slovenian commercial bank as a long-term loan in the amount of EUR 10,000,000, the amount of EUR 5,000,000 falls due in 2020, so it is classified as short-term financial liabilities to the bank. The loans are secured by drafts and have variable interest rates based on the 3- or 6-month EURIBOR. The interest for the period amounts to EUR 180,277.
- long-term loans for the investment in hydroelectric power plants on the lower course of the Sava, raised from SID d.d. in the amount of EUR 14,782,610 (EUR 16,521,740 as at 31 December 2018) and from a Slovenian commercial bank in the amount of EUR 31,304,348 (EUR 34,782,609 as at 31 December 2018). Long-term loans fall due in 2029, are secured by drafts and have a fixed interest rate based on the 6-month EURIBOR. Interest liabilities for the period, which are settled semi-annually, are recognized among other short-term liabilities as accrued expenses in the amount of EUR 654,768. In 2019, EUR 5,217,391 was repaid against the principal, and liabilities for repayment of the principal in 2020 in the total amount of EUR 5,217,391 were transferred to short-term financial liabilities. By 2024, EUR 20,869,565 of long-term financial liabilities fall due, and the remaining EUR 27,011,472 falls due by 2029.
- long-term loan for the investment in the construction of a new gas turbine unit at Brestanica Thermal Power Plant, raised from SID d.d., in the amount of EUR 7,777,778 as at balance sheet date (EUR 8,518,519 as at 31 December 2018), with repayment due date in 2031. The loan is secured by drafts and a patronage statement and has at a fixed interest rate based on the 6-month EURIBOR. The interest for the period in the amount of EUR 59,062 is added to investment in construction and production, and being outstanding on the last day of the reporting period, it is recognized under short-term financial liabilities. A portion of a long-term loan in the amount of EUR 799,802 and with repayment due date in 2019 is reported under short-term financial liabilities, with added interest.
- a long-term loan for financing investments from the NEK Security Upgrade Programme in the amount of EUR 20,925,000, which was raised in November 2019 from a foreign commercial bank. The loan liabilities will be gradually reduced over ten years, from 2022 onwards, when the principal repayments begin – final repayment falls due in 2031.

5.17.2. Bond liabilities

On the reporting date, financial liabilities arising from issued bonds in the amount of EUR 34,000,000 (EUR 39,700,000 as at 31 December 2018) are also recorded. Bonds were issued in different periods:

- in 2017, bonds were issued in the amount of EUR 14,000,000 and are due in 2024;
- in 2018, bond liabilities amounted to EUR 20,000,000 and will fall due in 2022.

Interest expenses for the period amount to EUR 771,661.

5.17.3. Commercial papers issued

In its financial statements, the GEN Group also accounts for the values with regard to the issuance of commercial papers, in the amount of EUR 24,864,768. Commercial papers in the amount of EUR 25,000,000 were issued in 2019 and fall due in June 2020. Interest expenses for the period amount to EUR 135,232.

5.17.4. Financial liabilities from options

The liabilities from options for purchasing a stake in the amount of EUR 23,040,657 arise from the option contract for the purchase of shares in GEN-EL concluded between:

- the companies GEN and Elektro Ljubljana in the amount of EUR 11,765,657. The option becomes exercisable on 31 May 2020;
- companies GEN-I and the Fund of Craftspersons and Entrepreneurs and Gorenjska banka in the total amount of EUR 11,275,000. The option becomes exercisable on 30 June 2020.

Since there are buying and selling options under the same conditions and in particular at a fixed price, this indicates that the GEN Group companies have become economic owners of the company GEN-EL. The latter is considered a subsidiary within the GEN Group, and as a result, a financial liability amounting to EUR 24,203,894 is recognized in the total amount of the purchase price, the related interest and the agreed dividends from the options.

5.17.5. Other financial liabilities

Other long-term financial liabilities include the fair value of the derivative financial instrument of interest rate swap for hedging interest rates on loans for investment in HPPs on the lower Sava, which amounts to EUR 1,794,080 (EUR 1,329,539 as at 31 December 2018).

Other short-term financial liabilities	31/12/2019	31/12/2018
Options, swaps, etc., derivative financial instruments related to operations	-31,709	-855,903
Derivative financial instruments for hedging against currency risk	183,748	-676,179
Firm commitments recognized for fair value hedging	6,695,954	12,551,412
Fair value of commodity contracts	-3,892,624	-16,981,091
Other short-term financial liabilities	473,904	737,975
Total	**3,429,273**	**-5,223,786**

The fair value of commodity contracts in accordance with IFRS 9 in the amount of EUR 3,892,624 relates to the following periods:

- financial year 2020 in the amount of EUR 5.028.287;
- financial year 2021 in the amount of EUR 53.164;
- financial year 2022 in the amount of EUR –487.067;
- financial year 2023 in the amount of EUR –350.400;
- financial year 2024 in the amount of EUR –351.360.

Firm commitments recognized as fair value security mainly comprise changes in the fair value of physical contracts for the purchase and sale of electricity that are secured by derivatives (standardized futures contracts), relating to the following periods:

- financial year 2020 in the amount of EUR –4.533.029;
- financial year 2021 in the amount of EUR –2.162.925.

5.17.6. Changes in financial obligations

Changes in financial liabilities, in EUR	2019
As at 01/01	166,709,677
Receipts from loans received	169,390,000
Receipts from commercial papers	25,268,990
Receipts from issued bonds	152,961
Receipts from other financial liabilities	85,538
Receipts from financial liabilities	**194,897,489**
Disbursements for loans received	-154,547,662
Disbursements for commercial papers	-25,272,000
Disbursements for issued bonds	-5,920,014
Disbursements for interest purchase options	-1,000,000
Disbursements for other financial liabilities	-224,991
Disbursements for financial liabilities and interest	**-186,964,667**
Acquisitions from options for an interest in GEN-EL	1,089,303
Acquisitions from derivative financial instruments	2,912,423
Change in fair value	464,541
Other increases in financial liabilities	**549,728**
As at 31/12	**179,658,494**

5.17.7. Maturity of long-term financial liabilities

Maturity of long-term financial liabilities as at 31/12/2019, in EUR	
1–3 years (excl.)	22,678,652
3–5 years	42,071,634
5+ years	50,962,675
Total	**115,712,961**

5.18. Other long-term liabilities

Other long-term liabilities, in EUR	31/12/2019	31/12/2018
Long-term operating liabilities to suppliers	291,773	204,485
Long-term liabilities from contracts	249,713	45,782
Government grants	754,558	243,349
Long-term deferred revenue and other accruals	235,231	525,192
Total	**1,531,275**	**1,018,808**

5.19. Lease liabilities

Lease liabilities, in EUR	31/12/2019	31/12/2018
Long-term liabilities from leases	1,785,775	0
Short-term liabilities from leases	903,823	0
Total	**2,689,598**	**0**

Changes in lease liabilities, in EUR	2019
As at 01/01/2019	1,234,686
Increase	2,187,927
Interest	25,800
Rent payments	-758,815
As at 31/12/2019	**2,689,598**

5.20. Current operating liabilities

Short-term operating liabilities, in EUR	31/12/2019	31/12/2018
Short-term operating liabilities to suppliers	55,898,608	118,202,887
Short-term operating liabilities for advances	0	60,180
Short-term liabilities to employees	6,518,288	6,495,717
Other short-term liabilities to the state	11,354,768	6,465,955
Other short-term operating liabilities	1,868,664	2,694,092
Total	**75,640,327**	**133,918,831**

Short-term operating liabilities relate to unpaid liabilities to suppliers for goods, services and materials, for working purposes and investments in fixed assets.

Current liabilities to employees comprise the December payroll, bonuses and other employment remunerations.

A significant portion of current operating liabilities are liabilities to state and other institutions, including mainly VAT liabilities, excise duty liabilities, December social security contributions, and contributions from other employment receipts payable by the employer.

5.21. Short-term contract liabilities

Short-term liabilities from contracts represent short-term operating liabilities on the basis of received advances from buyers of the GEN Group companies, which amounted to EUR 7,742,132 at the end of the reporting period (EUR 5,805,277 as at 31 December 2018)..

5.22. Current corporate income tax liabilities

Current corporate income tax liabilities, in EUR	31/12/2019	31/12/2018
Current corporate income tax liabilities	2,976,040	1,850,563
Total	**2,976,040**	**1,850,563**

5.23. Other short-term liabilities

Other short-term liabilities, in EUR	31/12/2019	31/12/2018
Accrued costs and expenses	10,307,145	12,928,797
Short-term deferred revenue and other accruals	1,017,242	551,034
Total	**11,324,387**	**13,479,831**

Accrued costs or expenses are predominantly formed on subsidiaries. Totalling EUR 9,005,651 (EUR 8,887,256 as at 31 December 2018), these comprise the costs of purchasing electricity and natural gas, which were taken into account during the preparation of financial statements on the basis of contracts from 2019, for which no invoices have yet been received.

5.24. Contingent assets and liabilities

Contingent assets and liabilities, in EUR	31/12/2019	31/12/2018
Payment bank guarantees – issued	152,667,443	168,510,305
Loss from previous years by subsidiary	76,437,924	76,437,924
Satisfactory performance bank guarantees – received	4,463,100	13,198,855
Payment bank guarantees – received	40,735,244	37,030,687
Satisfactory performance bank guarantees – issued	34,887,574	32,139,127
Securities	49,360,930	33,949,185
Inventories of the Agency of the RS for Commodity Reserves	21,296,031	19,996,443
Other forms of payment security – drafts	4,210,410	10,747,585
Blanket credit lines	47,673	74,708
Other	113,800	115,363
Total	**384,220,129**	**392,200,182**

The loss from previous years posted by a subsidiary is unrealized tax loss not recognized under deferred tax assets, since there is no firm evidence on the future taxable profits of the subsidiary.

Inventories of the Agency of the Republic of Slovenia for Commodity Reserves represent the stock of extra light fuel oil and the stock of diesel fuel, stored in accordance with the provisions of the contract with the Agency of the Republic of Slovenia for Commodity Reserves and are valued at the last known retail price. Their total value is EUR 21,296,031.

As at 31 December 2019, guarantees comprise guarantees granted, in the amount of EUR 1,400,000, and guarantees received, in the amount of EUR 47,960,930. These refer to the securing of a timely and reliable payment and satisfactory performance of work.

Indicative loans are unused approved loan limits.

5.25. Revenue

Revenue, in EUR	2019	2018
Revenue from sales of:	**2,215,638,162**	**2,369,971,111**
– goods and material	2,162,703,018	2,314,185,885
– services	52,935,144	55,785,226
Rent revenue	**58,550**	**84,288**
Total	**2,215,696,712**	**2,370,055,399**

Revenue from sales refers to revenues from contracts with customers and – in the context of revenues from the sale of goods and materials – mainly represents revenue from the sale of electricity and natural gas and – in the context of revenues from the sale of services – services related to electricity.

Sales revenue, in EUR	2019	2018
Home market revenue	**521,862,895**	**482,560,986**
Foreign market revenue	**1,693,775,267**	**1,887,410,125**
– on the EU market	1,338,589,967	1,509,291,549
– on non-EU markets	355,185,300	378,118,576
Total	**2,215,638,162**	**2,369,971,111**

5.26. Other operating revenue

Other operating revenue, in EUR	2019	2018
Change in value of product inventories and work in progress	105,496	337,458
Capitalized own products and services	101,863	777,075
Reversal of long-term provisions	200,229	224,693
Revaluation operating revenue	220,650	56,727
Other operating revenue	28,630,659	3,947,266
Total	**29,258,897**	**5,343,219**

The largest portion of other operating revenue in 2019 comprises other operating revenue, with the most important presented below:

Significant items of other operating revenue/expenses, in EUR	2019	2018
Fair value from commodity contracts	54,095,018	15,991,605
Fair value from financial contracts	-31,126,680	-30,709,508
Ineffective share from fair value hedging	-109,846	555,564
Fair value from currency contracts	-123,854	3,224,329
Disclosure for Note 5.31 Other operating expenses		**-10,938,010**
Other recurring operating revenue	369,436	274,329
Revenues from the European Commission's Future Flow project	2,065,155	793,808
Operating income from supplementary activity of providing meals to employees	776,854	760,542
Revenues from overdue notices, indemnities, sale of fixed assets	2,210,244	1,609,410
Disclosure for Note 5.26 Other operating Revenue		**3,438,089**
Disclosure for Note 5.26 Other operating Revenue	**28,156,327**	

5.27. Expenses

Expenses and costs, in EUR	2019	2018
Costs of goods, materials and services	2,062,777,313	2,203,945,439
Labour costs	56,836,978	51,882,817
Write-downs	38,969,929	36,626,168
Other operating expenses	22,972,209	32,736,249
Financial expenses	4,965,097	4,042,004
Total	**2,186,521,526**	**2,329,232,677**

5.28. Costs by natural type

Costs of goods, materials and services, in EUR	2019	2018
Original cost of goods and material sold	1,999,604,247	2,141,368,961
Cost of materials used	23,461,257	23,990,618
Costs of services	39,711,809	38,585,860
Total	**2,062,777,313**	**2,203,945,439**

The purchase value of goods sold refers to the purchase of electricity and natural gas at the purchase price and associated costs. The costs of consumed material are to a greater extent the costs of consumed fuel for the production of electricity. The cost of services predominantly represents the cost of maintaining tangible fixed assets, the cost of intellectual services, the cost of services in the production of products and other costs.

5.29. Labour costs

Labour costs, in EUR	2019	2018
Payroll costs	40,944,751	37,401,032
Social security costs	9,253,632	8,598,075
Other labour costs	6,638,595	5,883,710
Total	**56,836,978**	**51,882,817**

In 2019, the Group calculated labour costs based on the collective labour agreement for the electricity sector and intercompany contracts, in accordance with the systemizations of work positions in individual GEN Group companies and on the basis of the provisions of employment contracts which are not subject to the tariff section of the collective labour agreement. The number of employees by individual GEN Group company and by formal qualifications is provided in the Business Report in Section 8.1. Number of employees and structure of qualifications.

5.30. Write-downs

Write-downs, in EUR	2019	2018
Depreciation of intangible assets	1,281,990	1,367,005
Depreciation of tangible fixed assets	35,197,818	31,471,596
Depreciation of leased fixed assets	733,144	0
Depreciation of investment property	66,103	66,103
Operating expenses subject to revaluation – fixed assets	287,425	728,217
Operating expenses subject to revaluation – inventories	1,223,404	803,138
Operating expenses subject to revaluation – receivables	180,045	2,190,109
Total	**38,969,929**	**36,626,168**

5.31. Other operating expenses

Other operating expenses, in EUR	2019	2018
Donations, grants	60,438	56,868
Environmental charges	15,740,325	15,481,312
Dues independent from other cost types	4,396,143	5,230,999
Other operating expenses	2,775,303	11,967,070
Total	**22,972,209**	**32,736,249**

Environmental protection charges comprise duties for water use charges, charges for limited use of space, and contributions paid to the Fund for Financing the Decommissioning of NEK. For disclosures of other operating expenses, see Section 5.26.

5.32. Financial expenses

Financial expenses, in EUR	2019	2018
Financial expenses for other financial liabilities	2,097,274	1,440,042
Financial expenses for other operating liabilities	382,286	86,896
Financial expenses for bonds issued	1,339,434	891,021
Financial expenses for loans from banks	996,431	893,529
Financial expenses for investment interests – equity method	52,957	259,187
Financial expenses for liabilities to suppliers and draft liabilities	78,016	81,297
Financial expenses for lease liabilities	18,699	0
Financial expenses due to impairment and write-offs of financial investments	0	390,032
Total	**4,965,097**	**4,042,004**

5.33. Costs by functional group

Costs by functional group, in EUR	2019	2018
Original cost of goods sold	2,104,152,349	2,240,409,852
Costs of selling	40,632,874	47,487,274
Overhead costs	35,460,834	36,892,727
Total	**2,180,246,057**	**2,324,789,852**

5.34. Taxes

Pursuant to the Corporate Income Tax Act, the GEN Group companies are obligated to account for and pay income tax, which was charged at the tax rate of 19% in the accounting period 2019. Deferred tax assets were formulated at the rate to be effective for calculation and payment of tax in 2020, at 19%.

Ratio of tax expenditure and profit or loss for the period, in EUR	2019	2018
Profit or loss before tax	59,658,675	47,967,141
Applicable tax rate	19%	19%
Tax amount at applicable tax rate	**11,335,148**	**9,113,757**
Tax from non-taxable revenue	189,600	78,993
Tax on revenue reducing the tax base	-23,536	-107,792
Tax from non-deductible expenses	1,155,811	572,585
Tax from tax breaks	-1,441,702	-1,538,974
Tax losses	-62,496	-171,590
Different tax rates, adjustments	-1,234,517	39,038
Tax from income increasing the tax base	9,131	28,292
Deferred taxes	1,243,595	-644,641
Tax under the tax assessment	0	-63,240
Current and deferred tax	**11,171,034**	**7,306,429**
Effective tax rate	**18.72%**	**15.23%**

5.35. Cash flow statement

The cash flow statement is compiled according to the aggregate method in terms of pooling the relevant shares and eliminating the cash flows generated in the group.

Items of receipts and expenditures from the cash flow statement for 2019 comprise:

- Cash flows from operating activities, including:
  - operating income and operating expenses, corporate income tax and other taxes, corrected by changes in net current assets of operating items of the statement of financial position,

- Cash flows from investing activities, including:
  - receipts from interest on short-term financial investments for time deposits totalling EUR 226,157 and shares in the profit of other investments totalling EUR 291,285,
  - receipts from the disposal of tangible fixed assets in the amount of EUR 471,823,
  - receipts from the disposal of financial liabilities totalling EUR 792,899,491,
  - expenses for the acquisition of intangible assets in the amount of EUR 1,882,407 and tangible fixed assets in the amount of EUR 75,125,131,
  - expenses for the acquisition of return-yielding financial investments – deposits other than cash equivalents, totalling EUR 801,230,395,
- Cash flows from financing, including:
  - receipts from an increase in financial liabilities totalling EUR 194,897,489,
  - expenses for paid interest associated with financing activities in the amount of EUR 2,898,505,
  - expenses for the repayment of financial liabilities arising from lease, representing interest in the amount of EUR 25,799 and principal in the amount of EUR 716,416,
  - expenses for the repayment of financial liabilities totalling EUR 186,964,667,
  - expenses for profit sharing payouts totalling EUR 7,000,000.

The opening balance of cash and cash equivalents includes cash in transactional bank accounts and funds held in commercial banks and available on call.

The closing balance of cash and cash equivalents includes cash in transactional bank accounts and funds held in commercial banks and available on call.

5.36. Revenue disclosures

Individual groups and remuneration for performance of duties in 2019, in EUR	2019
Members of Management – salary and allowance for annual leave	2,001,173
Other employees not subject to the tariff section of the collective labour agreement – salary and allowance for annual leave	8,177,476
External Supervisory Board members – remuneration for the performance of function, meeting attendance fees, and reimbursement of travel expenses	182,586
Internal Supervisory Board members – remuneration for the performance of function, meeting attendance fees, and reimbursement of travel expenses	47,116

5.37. Disclosures of payments to auditors

Amount spent on audit fees, in EUR	2019	2018
Amount spent on the auditor of the parent company:	**49,400**	**53,840**
– for auditing the annual report of GEN Group companies and GEN Group	49,400	48,688
– for other non-auditing services	0	5,152
Amount spent on other auditors:	**135,896**	**102,150**
– for auditing the annual report of GEN Group companies	135,896	102,150
Total	**185,296**	**155,990**

6. Financial instruments – book value, fair value and risk management

6.1. Bookkeeping and fair value

In accordance with the Group's accounting policies, in many cases, it is necessary to measure the fair value of both financial and non-financial assets and liabilities. The Group determined the fair value of each asset group for measurement and reporting purposes by the methods described below. Where further clarification is needed in relation to assumptions for the determination of fair value, these are set out in the breakdowns to the individual items of assets and liabilities of the group.

TANGIBLE FIXED ASSETS

The fair value of tangible fixed assets from business combinations is their market value. The market value of the real estate is equal to the estimated value at which the property could be exchanged on the date of valuation and after proper trading in the business under normal market conditions between well-informed and willing parties. The market value of machines, equipment and fine inventory is based on the offered market price of similar items.

INTANGIBLE ASSETS

The fair value of patents and trademarks derived from business combinations is based on an estimated discounted future royalty value whose royalty or trademark payment is unnecessary. The fair value of customer relationships acquired in a business combination is determined on the basis of a specific excess profit method, and the asset is valued after deducting the fair return of all assets contributing to cash flows.

INVESTMENT PROPERTY

The value of investment property is estimated using the total value of the expected cash flows from leasing out the property. The return on specific risks is included in the calculation of the value of the property on the basis of discounted net cash flows on an annual basis.

INVENTORIES

The fair value of inventories in business combinations is determined on the basis of their expected sales value in ordinary operations, less estimated sales costs.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is determined in accordance with the previously determined hierarchy of the level of determining the fair value of financial instruments.

INVESTMENTS IN AFFILIATED COMPANIES

The company determines the fair value of investments in affiliated companies and jointly controlled entities in accordance with a predetermined hierarchy of the level of determining the fair value of financial instruments. The methods of determining the value and input assumptions for each investment are separately presented in the disclosures.

RECEIVABLES AND LOANS GRANTED

The fair value of receivables and loans is calculated as the present value of future cash flows discounted at the market interest rate at the end of the reporting period. The assessment takes into account the credit risk of these financial assets.

FINANCIAL DERIVATIVES

The fair value of non-standardized forward contracts is equal to their offered market price at the end of the reporting period, if available. If this is not available, the fair value is determined as the difference between the contractual value of the forward contract and its currently offered value taking into account the remaining maturity of the transaction with a risk-free rate (based on government bonds).

NON-DERIVATIVE FINANCIAL LIABILITIES

For reporting purposes, fair value is calculated on the basis of the present value of future principal payments and interest discounted at the market interest rate at the end of the reporting period. For finance leases, the market interest rate is determined by comparing similar lease agreements.

				31/12/2019
Fair value of assets, in EUR	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
Assets measured at fair value				
Derivative financial instruments	0	0	0	0
Financial assets measured at fair value through profit or loss	0	100,000	100,000	100,000
Financial assets measured at fair value through comprehensive income	0	3,283,101	3,283,101	3,283,101
Total	**0**	**3,383,101**	**3,383,101**	**3,383,101**
Financial assets measured at amortized cost				
Non-current investments	0	196,878	196,878	196,878
Non-current deposits	0	2,522,160	2,522,160	2,522,160
Current deposits	0	98,101,059	98,101,059	98,101,059
Trade receivables	0	89,089,382	89,089,382	89,089,382
Assets from contracts	0	44,553,041	44,553,041	44,553,041
Cash and cash equivalents	0	74,537,115	74,537,115	74,537,115
Total	**0**	**308,999,635**	**308,999,635**	**308,999,635**

				31/12/2018
Fair value of assets, in EUR	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
Assets measured at fair value				
Derivative financial instruments	6,004,859	0	6,004,859	6,004,859
Financial assets measured at fair value through profit or loss	0	295,164	295,164	295,164
Financial assets measured at fair value through comprehensive income	0	3,074,525	3,074,525	3,074,525
Total	**6,004,859**	**3,369,689**	**9,374,548**	**9,374,548**
Financial assets measured at amortized cost				
Non-current investments	0	156,722	156,722	156,722
Non-current deposits	0	19,339	19,339	19,339
Current deposits	0	97,521,679	97,521,679	97,521,679
Trade receivables	0	112,751,637	112,751,637	112,751,637
Assets from contracts	0	35,642,336	35,642,336	35,642,336
Cash and cash equivalents	0	72,774,668	72,774,668	72,774,668
Total	**0**	**318,866,381**	**318,866,381**	**318,866,381**

				31/12/2019
Fair value of liabilities, in EUR	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
Liabilities at fair value				
Derivative financial instruments	2,257,374	1,794,080	4,051,454	4,051,454
Total	**2,257,374**	**1,794,080**	**4,051,454**	**4,051,454**
Liabilities measured at amortized cost				
Unsecured bank loans	0	90,806,928	90,806,928	90,806,928
Other financial liabilities	0	50,800,112	50,800,112	50,800,112
Lease liabilities	0	2,689,598	2,689,598	2,689,598
Bonds	0	34,000,000	34,000,000	34,000,000
Liabilities from contracts	0	7,991,845	7,991,845	7,991,845
Liabilities to suppliers	0	55,898,608	55,898,608	55,898,608
Total	**0**	**242,187,091**	**242,187,091**	**242,187,091**

				31/12/2018
Fair value of liabilities, in EUR	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
Liabilities at fair value				
Derivative financial instruments	43,098	1,329,539	1,372,637	1,372,637
Total	**43,098**	**1,329,539**	**1,372,637**	**1,372,637**
Liabilities measured at amortized cost				
Unsecured bank loans	0	75,845,009	75,845,009	75,845,009
Other financial liabilities	0	49,835,129	49,835,129	49,835,129
Lease liabilities	0	251,840	251,840	251,840
Bonds	0	39,700,000	39,700,000	39,700,000
Liabilities from contracts	0	5,851,059	5,851,059	5,851,059
Liabilities to suppliers	0	118,263,017	118,263,017	118,263,017
Total	**0**	**289,746,054**	**289,746,054**	**289,746,054**

Level 1 – assets at market price, Level 2 – assets which are not included in Level 1 and whose value can be directly or indirectly determined on the basis of comparable market data, Level 3 – assets whose value cannot be derived from market data.

The value of derivative financial instruments relates to financial and physical settlement futures, currency transactions and other financial derivatives related to trading.

Financial transactions with financial settlement and physical settlement transactions that do not qualify for exemption on the basis of their own use shall be valued on the basis of the quoted prices. The valuation uses the settlement prices from the relevant stock exchanges for the relevant products. Currency transactions are valued on the basis of the appropriate exchange rate (official middle exchange rate or exchange rate). For official evaluation, official middle exchange rates or futures are used. The data on official middle exchange rates are obtained from the relevant central banks, and the exchange rates are determined on the basis of market data. These assets and liabilities are classified at Level 1 of fair value hierarchy.

Other forward transactions with a physical settlement that do not qualify for exemption on the basis of their own use shall be valued on the basis of the relevant forward price curves. Cross-border transmission capacities are valued on the basis of the appropriate difference between forward price curves. These assets and liabilities are classified at Level 2 of fair value hierarchy.

Financial assets at FVTPL are equity instruments that are not listed on the stock exchange and that the Group intends to hold on to in the long term. As an appropriate assessment of the fair value of equity instruments not listed on the stock exchange, the Group uses the purchase cost.

The fair value of other short-term assets and liabilities is practically the same as their book value. The fair value of long-term assets and liabilities is approximately equal to their amortized cost. These liabilities are classified at level 3 of the fair value hierarchy.

6.2. Risk management

This section present disclosures in connection with financial instruments and risks; risk management is detailed in the Risk Management section of the Business Report in this Annual Report. In the context of financial risks, the GEN Group identifies the liquidity risk, credit risk, currency risk, interest rate risk, and the risk of changes in commodity prices.

6.3. Liquidity risks

Liquidity risk – liabilities in 2019, in EUR	Book value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	5+ years
Non-derivative financial liabilities							
Unsecured bank loans	90,806,928	91,068,539	3,124,070	8,065,484	12,002,444	25,419,056	42,457,485
Issued bonds	34,000,000	36,201,107	700,014	0	3,500,616	29,156,353	2,844,124
Other liabilities	50,800,112	50,938,305	50,226,598	536,012	175,695	0	0
Lease liabilities	2,689,598	2,902,920	509,928	740,160	609,804	1,043,028	0
Operating liabilities							
Operating liabilities	63,890,453	63,890,453	63,790,963	99,490	0	0	0
Derivative financial liabilities							
Other currency futures contracts:							
Outflows	4,051,454	4,051,454	516,434	149,535	2,683,725	701,760	0
Inflows	0	0	0	0	0	0	0
Total	**246,238,545**	**249,052,778**	**118,868,007**	**9,590,681**	**18,972,284**	**56,320,197**	**45,301,609**

Liquidity risk – liabilities in 2018, in EUR	Book value	Contractual cash flows	up to 6 months	6–12 months	1–2 years	2–5 years	5+ years
Non-derivative financial liabilities							
Unsecured bank loans	75,845,009	76,020,925	8,959,170	2,152,945	17,002,208	14,138,487	33,768,115
Issued bonds	39,700,000	42,519,807	700,014	5,838,700	3,500,616	29,636,353	2,844,124
Other liabilities	49,835,129	49,659,919	26,271,041	66,332	131,507	23,191,039	0
Lease liabilities	251,840	257,757	109,625	48,151	78,937	21,044	0
Operating liabilities							
Operating liabilities	124,114,076	128,252,491	126,817,520	1,262,299	79,023	93,649	0
Derivative financial liabilities							
Other currency futures contracts:							
Outflows	43,098	43,098	43,098	0	0	0	0
Inflows	-6,004,859	-6,004,859	-6,004,859	0	0	0	0
Total	**283,784,293**	**290,749,138**	**156,895,609**	**9,368,427**	**20,792,291**	**67,080,572**	**36,612,239**

In the context of managing the Group's liquidity, the GEN Group companies conduct regular monitoring and detailed planning of short-term solvency, which is ensured through up-to-date coordination and planning of all cash flows. In doing so, maximum possible attention is placed on risks associated with potential payment delays or disturbances in the buyer's adherence to payment terms that hamper the planning of inflows and implementation of further investment activities of the Group.

The Group also has in place constant monitoring and optimization of short-term cash surpluses and shortages both at the level of individual companies and the Group as a whole. Liquidity reserve in the form of approved credit lines at commercial banks, diversification of financial liabilities, continuous adjustment of the maturity of receivables and liabilities and consistent collection of receivables make it possible to effectively manage cash flows, which gives GEN Group the payment power and, consequently, a low level of risk of short-term solvency. In addition, the Group maintains an active attitude towards financial markets, and successful operations and a sustained cash flow from operations ensure that the liquidity risk is within the range of acceptable parameters and is completely manageable.

The long-term solvency of the Group is ensured by maintaining and increasing equity and by establishing an appropriate financial balance. The Group achieves this by constantly ensuring a suitable financial structure with regard to maturity periods of financing. In the area of liquidity risk management, the Management plans to continue – in the year ahead – to strengthen the Group's long- and short-term liquidity and to include new subsidiaries in the liquidity monitoring system.

The Group companies also manage liquidity risks by laying down well-defined contract terms and conditions, by regularly and precisely planning their cash flows on a daily, monthly and yearly basis, by checking their contractual partners and their payment track records, and through thoughtful and safe placement of surplus cash. At the Group level, liquidity risk is also further reduced:

- with the diversification of financial liabilities,
- by continuously adjusting the maturity of receivables and liabilities,
- by limiting the exposure to partners known to be unreliable payers, and
- by consistently recovering outstanding receivables.

The companies are also exposed to risks associated with surplus cash management. In order to manage risks, GEN has adopted an investment strategy, which gives the basis for the better management of the investment risk. To further manage risks associated with specific trends in the banking markets around the world (further declining EURIBOR) and special additional requirements imposed by financial institutions, the Group companies keep abreast of the fluctuating trends and adjust their actions accordingly.

6.4. Credit risks

The Group is exposed to credit risk primarily with regard to receivables from buyers of electricity and natural gas, which total EUR 89,089,382.

Credit risk – trade receivables at book value, in EUR	2019	2018
Domestic	34,902,617	35,009,959
Eurozone countries	17,947,838	17,842,008
Other European countries	15,047,313	22,530,923
Former Yugoslav countries	10,864,175	23,000,774
Other regions	10,327,439	14,367,973
Total	**89,089,382**	**112,751,637**

Credit risk – wholesale and retail trade receivables, in EUR	2019	2018
Wholesale customers	55,967,628	82,940,709
Retail customers	33,121,754	29,810,928
Total	**89,089,382**	**112,751,637**

GEN companies have active credit risk management and management of financial exposures of GEN Group companies to their business partners based on the consistent implementation of the adopted internal rules and the procedures for identifying credit risks and assessing exposures, determining the levels (limits) of the allowed exposure and on-going monitoring of the exposure of companies in relation to individual business partners. In the framework of the risk management service of the GEN Group companies, on the basis of the adopted rules on credit risk management for each new business partner in the trading area and for larger customers in the area of electricity and gas sales, an appropriate analysis of the creditworthiness of the business partner and risk assessment is carried out. It is based on the results of this assessment that the framework of future business cooperation is laid down and suitable credit lines for hedging against risks defined, along with payment and supply terms for each individual contractual relation.

In monitoring the current credit risk and daily exposure to credit lines established with individual partners, partners are classified into groups based on their credit rating characteristics, specifically whether it is a single company or a group of companies, trading partners, consumers or retailers, based on their geographic position, industry, age structure of receivables, maturity of receivables, existence of any previous financial problems, and based on the estimated level of risk of breaching contractual obligations. To minimize risks associated with non-payment by business partners, the Group, seeking to manage these risk when concluding transactions on a daily basis, places special attention on using suitable financial and legal instruments for securing contractual obligations, which are incorporated in their contractual relations with business partners and are individually adjusted based on a preliminary credit rating analysis and risk assessment.

Operating receivables, in EUR	31/12/2019 Prior to value adjustment	Accumulated depreciation	Carrying amount of receivable
Outstanding receivables	81,611,940	-60,132	81,551,808
Receivables due in up to 90 days	6,981,984	-50,872	6,931,112
Receivables due in 91–180 days	215,993	-251,299	-35,306
Receivables due in 181–365 days	126,954	-155,158	-28,204
Receivables due in 365+ days	8,375,291	-7,705,319	669,972
Total	**97,312,162**	**-8,222,780**	**89,089,382**

Operating receivables, in EUR	31/12/2018 Prior to value adjustment	Accumulated depreciation	Carrying amount of receivable
Outstanding receivables	106,870,118	-174,251	106,695,867
Receivables due in up to 90 days	5,503,003	-414,758	5,088,245
Receivables due in 91–180 days	446,878	-402,190	44,688
Receivables due in 181–365 days	394,740	-361,742	32,998
Receivables due in 365+ days	8,666,011	-7,776,172	889,839
Total	**121,880,750**	**-9,129,113**	**112,751,637**

Changes in adjustments of operating receivables, in EUR	2019	2018
Opening balance	**13,357,057**	**12,748,098**
Creation of adjustment	193,585	2,159,500
Reversal of adjustment to receivables	-474,993	0
Write-off of receivable against adjustment	-703,109	-1,550,541
Exchange differences	-951	0
Closing balance	**12,371,589**	**13,357,057**

The final balance of expected credit losses and impairment includes expected credit losses and impairment of trade receivables and contractual assets in the amount of EUR 8,173,082 (EUR 9,129,113 as at the end of 2018) and expected credit losses and impairment of other receivables and financial assets in the amount of EUR 4,198,507 (EUR 4,227,944 as at the end of 2018), of which the majority relates to the value adjustment created in the subsidiary GEN-I Sofia.

6.5. Currency risk

Currency risk as at 31/12/2019 in EUR	Total	EUR	USD	GBP	HRK	MKD	BAM
Trade receivables	**89,089,382**	75,962,942	0	0	1,824,662	7,495,478	2,531,316
Unsecured bank loans	**-90,806,928**	-90,806,928	0	0	0	0	0
Liabilities to suppliers	**-55,898,608**	-37,402,427	-2,959	-25,555	-1,001,477	-833,229	-7,177,429
Gross exposure in the statement of financial position	**-57,616,154**	-52,246,414	-2,959	-25,555	823,185	6,662,249	-4,646,113
Net exposure of receivables and liabilities		**38,560,514**	**-2,959**	**-25,555**	**823,185**	**6,662,249**	**-4,646,113**

Currency risk as at 31/12/2018 in EUR	Total	EUR	USD	GBP	HRK	MKD	BAM
Trade receivables	**112,751,637**	79,848,739	0	0	1,697,186	6,582,858	4,982,303
Unsecured bank loans	**-75,845,009**	-75,845,009	0	0	0	0	0
Liabilities to suppliers	**-118,263,017**	-82,708,125	-5,785	-19,576	-1,662,277	-1,525,879	-6,619,414
Gross exposure in the statement of financial position	**-81,356,388**	-78,704,395	-5,785	-19,576	34,909	5,056,979	-1,637,111
Net exposure of receivables and liabilities		**-2,859,386**	**-5,785**	**-19,576**	**34,909**	**5,056,979**	**-1,637,111**

Within the GEN Group, the GEN-I Group is engaged in deploying suitable infrastructure for concluding foreign currency transactions and in implementing other currency hedging mechanisms, including forward contracts and foreign currency clauses, particularly in markets outside the eurozone.

The principal activities – trading in and sales of electricity and natural gas, as well as transmission capacities – are the most exposed to currency risk; also exposed are loans and equity of the subsidiaries. Based on the trading and sales volume, the Group is exposed to the highest currency risk with these currencies: HRK (Croatian kuna), MKD (Macedonian denar), RON (new Romanian leu) and TRY (Turkish lira).

Risks of exchange rate fluctuations are reduced by pegging the selling prices of goods to the currency in which the liabilities for financing the purchase business are denominated. Part of the risk of exchange rate fluctuations is also "natural" between individual subsidiaries, as part of the planned inflows between them is covered by planned outflows in the same currency. If necessary, derivatives are used, and the Group carries out a number of forward exchange transactions for hedging against these risks.

GEL	RSD	UAH	HUF	ALL	TRY	BGN	RON	CZK	PLN
0	448,773	25,271	100	226,738	319	10,397	238,596	0	324,789
0	0	0	0	0	0	0	0	0	0
-326	-599,211	-73,040	-256,271	-96,495	-30,334	-2,172,743	-6,223,667	-3,445	0
-326	-150,438	-47,769	-256,170	130,243	-30,015	-2,162,346	-5,985,071	-3,445	324,789
-326	**-150,438**	**-47,769**	**-256,170**	**130,243**	**-30,015**	**-2,162,346**	**-5,985,071**	**-3,445**	**324,789**

GEL	RSD	UAH	HUF	ALL	TRY	BGN	RON	CZK	PLN
	9,605,330	0	0	360,604	963,125	167,977	8,543,515	0	0
	0	0	0	0	0	0	0	0	0
	-626,527	-2,130	-452,802	-281	-715,755	-2,459,633	-21,464,832	0	0
0	8,978,803	-2,130	-452,802	360,323	247,370	-2,291,656	-12,921,317	0	0
0	**8,978,803**	**-2,130**	**-452,802**	**360,323**	**247,370**	**-2,291,656**	**-12,921,317**	**0**	**0**

6.6. Interest rate risk

Interest rate risk – book value of financial instruments, in EUR	31/12/2019	31/12/2018
Fixed interest rate instruments		
Financial assets	100,623,218	97,501,608
Financial liabilities	-164,689,101	-103,961,723
Variable interest rate instruments		
Financial liabilities	-10,258,294	-61,691,789

The Group manages the interest rate risk by constantly assessing its exposure and potential effects of a change in the reference interest rate (variable portion) on the amount of financing expenses. Also closely watched is the loan portfolio which might be affected by a potential change in interest rates. In this context, the Group is keeping an eye on the fluctuations of interest rates in the home market, foreign markets and the derivatives market. The aim of continuously monitoring the exposure and analyzing the fluctuation of interest rates is to propose timely hedging measures through balancing the assets and liabilities sections of the statement of financial position.

6.7. Risk of changes in commodity prices and hedge accounting

One of the major activities of the GEN Group, carried out within the GEN-I Group, is international trade in electricity and natural gas, the sale of both energy carriers to final customers, and the related purchase of energy carriers from producers.

Due to the nature of its business activities, the Group must continuously carry out hedging activities to reduce market risk. Hedging is carried out by GEN-I d.o.o., which takes care of the centralized management of the Group's portfolio and has all the necessary infrastructure for the implementation of hedging activities on commodity markets.

Activities for hedging against market risk are carried out in accordance with the policies and procedures defined by the risk management service.

The risk of changes in commodity prices results from price changes due to the market structure, demand/supply, import/export duties and changes in the prices of cross-border capacities. It is the risk of money loss due to price movements in the energy markets. These market risks are managed using predefined strategies based on sensitivity analysis of portfolios, price elasticities of sales portfolios, CVaR indicators and quantitative exposure analysis, as well as depth and liquidity check of markets in all portfolios in the GEN-I Group.

A hedged item is a firm commitment. A firm commitment is a binding agreement on the replacement of a precise amount of factors at a precisely determined price on a precisely determined future day or days. Protected items of a group (goods) are physical transactions with electricity and natural gas.

A hedging instrument is a standardized forward contract. The Group is active in several commodity markets and uses standardized futures contracts for electricity, natural gas and other goods as hedging instruments.

The hedging ratio is defined as the ratio between the amount of the hedging instrument and the amount of the hedged item, taking into account their relative weights. a hedged item and a hedging instrument may relate to identical or different goods and fulfil at the same or different times and on the same or different markets. However, hedging must be effective, which means that there is a strong link between the hedged item and the hedging instrument; the hedged item and the hedging instrument usually thus relate to the same goods and have the same or similar deadline for fulfilment.

Sources of inefficiency that are expected to influence the hedging relationship between their duration are:

- differences in profiles;
- differences in location;
- differences in time frames;
- differences in quantities or nominal amounts;
- proxy security;
- early termination and
- credit risk.

In order to prove the existence of an economic relationship, there must be an expectation that the value of the hedging instrument and the value of the hedged item as a result of the total underlying or hedged risk will move in the opposite direction. For judgment, we usually use a qualitative test, i.e. assessment of matching of essential conditions. When the hedging relationship is not obvious, a quantitative test is used to assess the economic relationship, i.e. simple method based on scenario analysis.

HEDGING INSTRUMENTS

Time horizon of the nominal amount of hedging instruments	Nominal amount in EUR		
	up to 1 year	1–5 years	5+ years
Risk of changes in commodity prices	35,080,222	27,062,268	0

Hedging instrument	Nominal amount of the hedging instrument, in EUR	Book value of the hedging instrument		Line item in the statement of financial position that includes the hedging instrument	Changes in fair value used to calculate hedging ineffectiveness for 2019, in EUR
		Assets	Liabilities		
Risk of changes in commodity prices	62,142,490	n/a*	n/a*	n/a*	5,873,606

* The financial instrument is a standardized futures contract settled with cash on a daily basis.

HEDGED ITEM

Hedged item	Book value of hedged item		Total change in fair value of firm commitment, in EUR		A line item in the statement of financial position that includes a firm commitment	Changes in fair value used to calculate hedging ineffectiveness for 2019, in EUR
	Assets	Liabilities	Assets	Liabilities		
Risk of changes in commodity prices	n/a*	n/a*		6,695,952	Derivative financial instruments *	5,427,932

* A hedged item is an unrecognized firm commitment.

INEFFECTIVE HEDGING

Fair value hedging	Ineffective hedging recognized in profit or loss, in EUR	Line item in the statement of comprehensive income that includes ineffective hedging
Risk of changes in commodity prices	445,674	Other recurring operating revenue or expenses

6.8. Events after the reporting period

The GEN Group estimates that after the reporting period and up until the release of this Annual Report, there were no business events that would have a material impact on the company's financial statements for 2019.

In January 2020, the company GEN made a transfer in the amount of EUR 7,575,000 to NEK as paid-in capital reserves in accordance with a resolution adopted by the NEK General Meeting.

As Slovenia faced an outbreak of COVID-19, the GEN Group companies advised its employees as early as February 2020 to take precautions to avoid the COVID-19 infection and to keep business trips down to a minimum; when an epidemic was declared, the companies took steps to organize and implement telecommuting for all employees, with some exceptions. The GEN Group companies made appropriate adjustments to its work processes so as to ensure safe and reliable operation of all the Group's production facilities – all this time, their operation was indeed smooth and without interruptions. Due to its surplus cash investments in short-term deposits and the slowdown in the planned investments, the Group has at its disposal enough available assets to be able to continue smooth financial operations during short periods of emergency.

On 5 May 2020, the company Management approved the financial statements of the GEN Group and the Annual Report for the financial year ended on 31 December 2019.

V ON CORPORATE REPORTING OF THE GEN GROUP

1. Compliance with reporting policies

At the beginning of each year, the GEN Group releases an annual business report for the preceding year, covering the period from 1 January to 31 December. Information on sustainable operations of the company GEN and the GEN Group are compiled in a uniform annual report, which provides details on their financial and non-financial operations. The most recent annual report was released on 31 August 2019.

The Annual Report of the GEN Group for 2019 meets the requirements of the amendment to the Companies Act (ZGD-1J) (Directive 2014/95/EU) as regards disclosure of non-financial and diversity information. The introductory (sections I.7 and I.8) and business sections of the Annual Report provide key insights into the business, environmental, workforce and social matters essential to understanding the development, performance and standing of the GEN Group.

In the Annual Report we seek to provide a comprehensive picture of our operations and highlight the inextricable link between the results of our financial and non-financial operations. By reporting on our non-financial operations, we are fulfilling three principal sustainability focuses of the GEN Group, specifically:

- **operational efficiency and business excellence,**
- **environmental responsibility,** and
- **care for society** in everything the GEN Group and its constituent companies do.

To facilitate proper understanding of the situation, development or results, individual sections of the Annual Report provide a listing of the key policies and other internal legal documents we follow in our fulfilment of non-financial operation goals.

Our reporting on the non-financial aspects of operations is based on the **international sustainability reporting framework pursuant to GRI Standards, accompanied by specific disclosures for electric utilities**. This way we provide a clear and transparent view of our operations, results and plans and ensure their comparability at national and international levels.

In addition, we are continuing with the **introduction of integrated reporting in line with the principles and guidelines of the IIRC (International Integrated Reporting Council)**, with an emphasis on consideration through capitals and their connection with the results of our business operations. In doing so, we build on the synergies created in linking our activities in order to fulfill the mission of the GEN Group. We are aware that further steps are needed towards improving our overall thinking and reporting, focusing primarily on creating concrete value for our key stakeholders.

If you have any questions about the Annual Report, contact us at info@gen-energija.si.

2. Sustainable reporting pursuant to GRI guidelines

General standard disclosures

Indicator	Disclosure	Section
GRI 101: 2016 BASIS		
GRI 102: GENERAL DISCLOSURES 2016		
Organizational profile		
102-1	Name of the organization	I.5
102-2	Activities, primary brands, products, services	I.6
102-3	Location of organization's headquarters	I.5
102-4	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	I.5.2, II.4
102-5	Nature of ownership and legal form	I.5, I.6, IV.3.1, IV.3.2
102-6	Markets served (geographic breakdown, sectors served, and types of customers and beneficiaries)	I.5.2, II.4, II.5
102-7	Scale of the organization (total number of employees, total number of operations, net sales, debt/equity ratio, quantity of products or services provided)	I.1, I.5, I.6, II.4, II.5, II.7, II.8, III.5, IV.5
102-10	Significant changes during the reporting period regarding the organization's size, structure, ownership, or supply chain	I.2, I.5.2, I.6, I.8.4, I.9
102-11	Report whether and how the precautionary approach or principle is addressed by the organization	II.11, III.2, IV.2
102-13	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	I.4, II.8, II.10
STRATEGY AND ANALYSIS		
102-14	Statement from the most senior decision-maker about the relevance of sustainability to the organization and the organization’s strategy for addressing sustainability	I.2

Indicator	Disclosure	Section
ETHICS AND INTEGRITY		
102-16	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	I.4, I.7, I.8, II.10, II.11.1, II.11.7
GOVERNANCE		
102-18	Governance structure of the organization, including committees of the highest governing body	I.4,I.5, I.6
STAKEHOLDER ENGAGEMENT		
102-40	List of stakeholder groups engaged by the organization	I.8.4
REPORT PROFILE		
102-45	All entities included in the organization's consolidated financial statements	IV.3.1, IV.3.2
102-46	Explain the process for defining the report content and the aspect boundaries	I.8
102-50	Reporting period	V.1
102-51	Date of most recent previous report (if any)	V.1
102-52	Reporting cycle	V.1
102-53	Contact point for questions regarding the report or its contents	V.1
102-54	Claims of reporting in accordance with the GRI	V.1, V.2
102-55	GRI content index	V.2

General standard disclosures for electric utilities

Indicator	Disclosure	Section
ORGANIZATIONAL PROFILE		
EU1	Installed capacity and breakdown by primary energy source	II.2.1
EU2	Net energy output broken down by primary energy source	II.2.1

Specific standard disclosures

CATEGORY **SUBCATEGORY** *Management approach and disclosures*		Material topics	Section
ECONOMIC ASPECTS			
GRI 201: Economic performance	103-1	Explanation of the material topic and its Boundary	I.8, III.3, III.7, IV.4
	201-1	Direct economic value generated and distributed (revenues, operating costs, employee wages and benefits, payments to providers of capital, payments to the government (taxes))	I.1, III.6, IV.4.3
GRI 203: Indirect Economic Impacts	103-1	Explanation of the material topic and its Boundary	II.6
	203-1	Development and impacts of infrastructure investments	II.6.1
ENVIRONMENTAL ASPECTS			
GRI 305: Emissions	103-1	Explanation of the material topic and its Boundary	II.2.1
	305-1	Direct greenhouse gas emissions	II.2.1
SOCIAL ASPECTS			
GRI 401: Employment	103-1	Explanation of the material topic and its Boundary	II.8
	401-1	Total number and rates of new employee hires and employee turnover	II.8
GRI 404: Training and education	103-1	Explanation of the material topic and its Boundary	II.8.2
	404-1	Average hours of training per year per employee	II.8.2
GRI 413: Local communities	103-1	Explanation of the material topic and its Boundary	I.8.4., II.9
	413-1	Operations with local community engagement, impact assessments and development programs	I.8.4., II.9

Specific standard disclosures for electric utilities

CATEGORY **SUBCATEGORY** *Management approach and disclosures*		Management approach (DMA) and/or indicators	Section
ECONOMIC ASPECTS			
Availability and reliability	G4 DMA in EU 10	Management approach to ensure short and long-term availability and reliability of electricity supply (DMA). Planned production capacities by the demand for electricity.	I.7, I.8, II.6
Research and development	G4-DMA	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development	II.6
Decommissioning of nuclear power sites	G4-DMA	Establishment of conditions for the decommissioning of nuclear power sites	II.7.2
System efficiency	EU 11	Average generation efficiency of thermal plants by energy source and by regulatory regime	II.2.2 (ancillary services)
ENVIRONMENTAL ASPECTS			
Emissions	G4-EN15	Direct greenhouse gas emissions	II.2.1
SOCIAL ASPECTS			
LABOR PRACTICES AND DECENT WORK			
Employment	G4-DMA	Programs and processes to ensure the availability of a skilled workforce	II.8
COMPANY			
Local communities	G4-DMA	Stakeholder participation in decision-making processes related to energy planning and infrastructure development	II.8, II.9
PRODUCT/SERVICE RESPONSIBILITY			
Provision of information	G4-DMA	Practices to address barriers to accessing and safely using electricity	II.9

3. Link between capitals and financial and non-financial information on business operations

The table below provides an overview of interconnections between individual types of capital from which the GEN Group generates value for its stakeholders and the financial and non-financial information on the GEN Group's business operations in 2019.

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2019
Infrastructural capital	Electricity generation: • at the nuclear power plant (NEK) • at the hydroelectric power plants (SEL and HESS) • at the gas-fired thermal power plant (TEB). Operational efficiency	II.2 Electricity generation and ancillary services
	Electricity purchase portfolio: internal and external production sources (domestic and foreign producers) Electricity purchased (in GWh) Advanced (software and IT) infrastructure for satisfying customer needs	II.3 Electricity purchase
	Electricity trading and sales volume (in GWh) Advanced (software and IT) infrastructure for cross-border trading which provides information and data for the optimal utilization of production sources	II.4 Electricity trading and sales
	Infrastructure for purchasing natural gas in Europe's energy markets Natural gas purchased (in GWh)	II.5 Sales of natural gas
	Safety aspects behind NEK's operation and the preparation of the JEK 2 project: • keeping abreast of best practices in the field of nuclear safety, • modernization of equipment, • assessment of the operational safety and work processes (International Atomic Energy Agency, IAEA).	II.10 Quality policy and safety assurance
	Management of risks associated with infrastructural capital.	II.11 Risk management

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2019
Natural capital	Low-carbon energy source portfolio: • 99.6% of our electricity output comes from sustainable and renewable energy sources, • CO_2 emissions per kWh generated.	II.2 Electricity generation and ancillary services
	Activities involving the ISO 14001 environmental management system	II.10 Quality policy and safety assurance
	Management of environmental and climate risks	II.11 Risk management
Financial capital	Volume of investments and capital expenditures (by GEN Group company; in EUR million)	II.6 R&D, capital expenditures and investments of the GEN Group companies
	Information on financial operations: • servicing operations and borrowing, • settling liabilities to the NEK Fund, • securing funding for covering NEK's fixed annual costs, • investing of surplus cash.	II.7 Financial operations
	Financial risk management	II.11 Risk management
Employees and intellectual capital	Our employees' knowledge and skills for ensuring the operational efficiency of our production units	II.2 Electricity generation and ancillary services
	Development of comprehensive broking services and flexibility (from intra-day to years-long trades)	II.3 Electricity purchase
	Entering new markets and expanding the economy of scale Implementation of instruments and authorizations for the comprehensive management of excess electricity and electricity shortfalls Development of new forms of business cooperation to allow for more effective risk management	II.4 Electricity trading and sales
	Growth of the number of electricity consumers (domestic market – trademark "Poceni plin" and entry to foreign markets)	II.5 Sales of natural gas
	Growing consumer base ("Poceni plin" brand in the domestic market and entrance to foreign markets) Research and development (overview of studies and R&D activities by GEN Group company)	II.6 R&D, capital expenditures and investments of the GEN Group companies
	Number and qualification structure of employees Professional education and training	II.8 Employees, knowledge and development of human resources

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2019
Employees and intellectual capital	Substance-wise and organizational development of activities for promoting energy literacy and employee engagement (overview by GEN Group company)	II.9 Promoting the knowledge of energy and the energy industry
	Quality management systems and direct engagement of all employees Safety culture – at the very heart of our responsible operations at every level: • nuclear safety as the top priority, • fostering and improvement of the safety culture and awareness among all employees Activities involving the occupational health and safety system	II.10 Quality policy and safety assurance
	Management of risks associated with human resources	II.11 Risk management
Social capital	Overview of the economic and political situation in 2019: • economic trends (economic growth, inflation, increasing industrial production), • process of drawing up the National Energy and Climate Plan (NECP) and the Energy Concept of Slovenia.	II. 1 Economic trends and their impact on the electricity sector
	Ancillary services, balancing of critical operational conditions in the power grid, tertiary frequency control	II.2 Electricity generation and ancillary services
	Overview of regulatory frameworks and social acceptability challenges with regard to: • the maintenance of existing and • construction and planning of new generation capacities, primarily: • the JEK 2 project, ZEL-EN development projects, and projects undertaken by the rest of the GEN Group companies.	II.6 R&D, capital expenditures and investments of the GEN Group companies
	Settlement of liabilities to suppliers Activities deriving from the Intergovernmental Agreement on NEK	II.7 Financial operations
	Development of human resources and management of long-term strategic challenges in human resources	II.8 Employees, knowledge and development of human resources

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2019
Social capital	Promoting the knowledge of energy and the energy industry among various target groups, primarily: • school children and youth, • local communities, • electricity consumers, • professional public circles, • decision-makers at the national and local levels, • NGOs, • the media, and other key stakeholders. Supporting energy-related projects and events	II.9 Promoting the knowledge of energy and the energy industry
	Management of risks associated with the regulatory and social environments	II.11 Risk management

ACRONYMS AND ABBREVIATIONS

AC	GEN Supervisory Board Audit Committee
ARAO	Agency for Radwaste Management
ARJE	ARJE, analize in raziskave na področju jedrske energetike, d.o.o.
AVK	Slovenian Competition Protection Agency
bn	billion
CA-1	Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06 and amend.)
CHP	combined heat and power
CIT	corporate income tax
CS	consumables/small tools
CO_2	carbon dioxide
company Management	the Management of the company GEN
COVID-19	Coronavirus Disease 2019 is an infectious disease caused by the SARS-CoV-2 virus. It is primarily transmitted through respiratory droplets produced when a person with the infection coughs or sneezes.
d.d.	joint-stock company
d.o.o.	limited liability company
DP	producers with a declaration for their production facility
DSc/PhD	Doctor of Science/Philosophy
ECB	European Central Bank
ECS	Energy Concept of Slovenia
EES	national electric power grid
EEX	European Energy Exchange, Leipzig
e.g.	for example
ELES	ELES, d.o.o., electrical power transmission system operator
ERDF	European Regional Development Fund
etc.	and so on
EU	European Union
EUR	euro
FA	financial assets
FI	financial investment
Fund of Craftspersons and Entrepreneurs	Sklad obrtnikov in podjetnikov, Vošnjakova ulica 6, Ljubljana
FURS	Ministry of Finance, Financial Administration of the Republic of Slovenia
FVTPL	fair value through profit or loss
FVTOCI	fair value through statement of other comprehensive income
GDP	gross domestic product
GEN	GEN energija d.o.o.
GEN-EL	GEN-EL d.o.o.
GEN-I	GEN-I, trgovanje in prodaja električne energije, d.o.o.
GEN CC	GEN Control Centre
GEN Group	the GEN energija Group
GHG	greenhouse gases
GO	guarantee of origin
Gorenjska banka	Gorenjska banka d.d., Bleiweisova cesta 1, Kranj
GRC	Government of the Republic of Croatia

GRS	Government of the Republic of Slovenia
GRI	Global Reporting Initiative
GWh	gigawatt-hour
HEP	Hrvatska elektroprivreda d.d.
HESS	Hidroelektrarne na Spodnji Savi, d.o.o.
HPP	hydroelectric power plant
HSE	Holding Slovenske elektrarne d.o.o.
HSE Invest	HSE Invest, d.o.o.
ICJT	ICJT Nuclear Training Centre
i.e.	that is
IFRS	International Financial Reporting Standards as laid down by Regulation 1606/2002/EC, Regulation 1725/2003/EC and Regulation 1126/2008/EC
IGES	IG Energetski sistemi d.o.o.
Intergovern-mental Agreement on NEK	The agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia governing the status and other legal relationships regarding investments in Krško Nuclear Power Plant, its operation and decommissioning
ISO standards	international standards for environmental management systems
IT	information technology
JEK 2	Krško Nuclear Power Plant, unit 2
kV	kilovolt
kW	kilowatt
kWh	kilowatt-hour
Ljubljana Stock Exchange	Ljubljanska borza, d.d., Ljubljana
LILW	low- and intermediate-level radioactive waste
LT FI	long-term financial investment
m^2	square metre
m^3	cubic metre
MA/MSc	Master of Arts/Science
Management	the Management of the company GEN
m	million
MW	megawatt
MWh	megawatt-hour
Natura 2000	A European network of special protected areas designated by EU Member States with the central aim of preserving biodiversity
NEK	Nuklearna elektrarna Krško d.o.o. (Krško Nuclear Power Plant)
NEK Fund	Fund for Financing the Decommissioning of NEK and Disposal of Radioactive Waste from NEK
NEK Fund Act	Act on the Fund for Financing the Decommissioning of NEK and Disposal of Radioactive Waste from NEK (Official Gazette of the Republic of Slovenia, No. 75/1994 and amend.)
NEP	National Energy Programme
NLB	Nova Ljubljanska banka, d.d.
NPP	nuclear power plant
OECD NEA	The Nuclear Energy Agency within the Organisation for Economic Co-operation and Development
OSART	Operational Safety Review Team
PB	gas turbine unit

PFS	prefeasibility study
Prof.	Professor
PWR	pressurized water reactor
RC	GEN Supervisory Board Recruitment Committee
ReNEP	Resolution on the National Energy Programme
RES	renewable energy sources
rev.	revision
RS	Republic of Slovenia
RTD	resistance temperature detector
SAS	Slovenian Accounting Standards
SB	Supervisory Board
SEL	Savske elektrarne Ljubljana, d.o.o.
SKB	SKB banka, d. d., Ljubljana
SHPP	small-scale hydroelectric power plant
SPPP	small-scale photovoltaic power plant
SRESA	Srednjesavske elektrarne, d.o.o.
SSH	Slovenian Sovereign Holding
TALUM	TALUM Tovarna aluminija d.d., Kidričevo
TEB	Termoelektrarna Brestanica d.o.o. (Brestanica Thermal Power Plant)
UCTE	Union for the Coordination of the Transmission of Electricity
UniCredit Banka	UniCredit Banka Slovenija d.d.
USA	United States of America
WANO	World Association of Nuclear Operators
ZEL-EN	ZEL-EN, razvojni center energetike, d.o.o.
ZPOmK-1	Prevention of Restriction of Competition Act (Official Gazette of the Republic of Slovenia, No. 36/08 and amend.)

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